
 *3060165

AFGHANISTAN

AFGHANISTAN: AGRICULTURAL CREDIT
 FY77 TO FY80

3060165 ①

PD. AAD-018-A1

PROJECT SUMMARY DESCRIPTION

GRANT TO THE AGRICULTURAL DEVELOPMENT BANK (ADB) THROUGH THE GOVERNMENT OF AFGHANISTAN (GOA) PROVIDES CREDIT TO THE SMALL-SCALE FARMERS SO THEY CAN PURCHASE AGR INPUTS (SUCH AS FERTILIZER AND IMPROVED SEEDS) TO INCREASE BOTH THEIR AGR PRODUCTION AND INCOMES. LOANS WILL BE DISBURSED BY ADB TO SMALL FARMERS WITH AN AVERAGE OF 7 PERSONS PER FAMILY, FARM HOLDINGS AVERAGING 2 HECTARES, AND PER CAPITA INCOME OF \$60. THE GRANT SHOULD IMPACT 25000 FARMERS, 150000 FAMILY MEMBERS AND PROVIDE AVERAGE LOANS OF \$200 PER FARMER. THE PROJECT HAS BEN DEVELOPED IN CONCERT WITH THE THIRD IBRD/IDA LOAN TO THE GOA AND A CANADIAN INTERNATIONAL DEVELOPMENT ASSOCIATION (CIDA) LOAN. PROCEEDS FROM LOANS ARE TO BE ON-LENT TO THE AGRICULTURAL DEVELOPMENT BANK FOR ITS AGR LENDING OPERATIONS, SUPPORTING SERVICES, TECHNICAL ASSISTANCE AND FOR PREPARING A STUDY OF THE FERTILIZER INDUSTRY. AID FUNDS THE SHORT TERM LOANS WHICH ADB SUPPLIES FOR FERTILIZER, SEEDS AND PLANT CHEMICALS. UNDP PROVIDES TECHNICAL ASSISTANCE IN MANAGEMENT AND TRAINING. BENEFICIARIES ARE THE RURAL, SMALL FARMERS.

DESCRIPTORS

PESTICIDES	SEED	AGR PRODUCTION	FERTILIZER
AGR PROD CREDIT	AGR INPUTS	SMALL FARMERS	AGR CREDIT

SUB-PROJECT NUMBER: 00

BATCH NUMBER: 15

UNCLASSIFIED

Ref: 3060165(2)

Ref: -

PD-AAD-018-B1

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

PROJECT ASSISTANCE PAPER

AFGHANISTAN: AGRICULTURAL CREDIT

UNCLASSIFIED

PROJECT PAPER FACESHEET

COUNTRY ENTERED

Afghanistan

PROJECT NUMBER (digits)

306-0165

B. BUREAU OFFICE

NE

03

ESTIMATED DATE OF PROJECT COMPLETION

8.0

TRANSACTION CODE

A. INITIAL
B. CHANGE
C. REVERSE

PP

DOCUMENT CODE

3

DOCUMENT REVISION NUMBER

PROJECT TITLE (Maximum 40 characters)

Agricultural Credit Project

ESTIMATED DATE OF OBLIGATION

A. INITIAL FY 77

B. QUARTER 4

C. FINAL FY 77

(Enter 1, 2, 3 or 4)

ESTIMATED COSTS \$000 OR EQUIVALENT BY

AFs 50

A. FUNDING SOURCE	FIRST FY		LIFE OF PROJECT			
	LOCAL	F.C.	TOTAL	E.F.	F.C.	TOTAL
ADB ASSISTED PROJECT TOTAL	1,500	3,500	5,000	1,500	3,500	5,000
OTHER	1,500	3,500	5,000	1,500	3,500	5,000
OTHER COUNTRY ADB/GOA	-	3,194	3,194	-	3,194	3,194
OTHER DONORS IBRD/CIDA	2,446	-	2,446	2,446	-	2,446
TOTALS	3,946	6,694	10,640	3,946	6,694	10,640

PROPOSED BUDGET APPROPRIATED FUNDS \$000

A. APPROPRIATION	B. PRIMARY EXPENSE CODE	PRIMARY TECH CODE		1ST FY 77		2ND FY -		3RD FY -	
		GRANT	LOAN	GRANT	LOAN	GRANT	LOAN	GRANT	LOAN
1. FN	201B	070		5,000					
2.									
3.									
4.									
TOTAL									

13. DATA, HANDED TO THE FIELD OFFICE, MUST BE MADE IN THE PFD FACESHEET DATA BLOCKS 12, 13, 14 OR 15 OR IN PFD FACESHEET DATA BLOCK 12 IF DATA IS CHANGED PFD FACESHEET

1

NO

YES

14. ORIGINATING OFFICE CLEARANCE

SIGNATURE

TITLE

Director, NE/CD

DATE SIGNED

MM DD YY

15. DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W. DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

BEST AVAILABLE COPY

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Project Paper Prepared By:

J. Paul Guedet, Project Officer
Lewis Clark, Agricultural Advisor

i. Summary and Recommendations

- A. Grantee: The Government of Afghanistan for on-lending to the Agricultural Development Bank of Afghanistan.
- B. Implementing Agency: The Agricultural Development Bank of Afghanistan.
- C. Proposed Amount of Grant: \$5.0 million
- D. Purpose of the Grant: To provide credit to small-scale farmers so they can purchase agricultural inputs for utilization on crops in order to increase agricultural production and increase farmers' incomes.
- E. Description of the Project: AID provides a \$5 million grant to the ADB through the Government of Afghanistan to finance fertilizer and other agricultural input loans to small-scale farmers. Funds would be disbursed over three years by ADB to small farmers with an average of seven persons per family, farm holdings averaging 2 hectares, and average per capita income of \$60 per person. The grant should impact 25,000 farmers, 150,000 family members ✓ and provide average loans of \$200 per farmer. Loan funds should purchase sufficient fertilizer and improved seeds to double wheat production and increase per capita income to \$120 per annum.

- F. Recommendation: After reviewing Afghanistan's agricultural sector and conducting financial and economic analyses, the Near East Bureau recommends that a grant for \$5 million be authorized to finance credit to small-scale farmers.
- G. Issues: None.

Project Committee

J. P. Guedet,	Project Officer
L. Clark,	Agricultural Advisor
J. Miller,	Attorney Advisor
R. Carlson,	Officer in Charge
A. Reich,	Programming Officer

II. PROJECT BACKGROUND AND DETAILED DESCRIPTION

A. Background

Afghanistan's economy is based primarily on subsistence agriculture, involving about 85 percent of the population. The agriculture sector produces half of the gross domestic product and employs about 3.3 million people or 67 percent of the estimated active labor force. The rural population is largely engaged in agriculture and rural settlements are small and scattered throughout the country. Agricultural production is severely limited by climate and topography. Less than 7 percent of the land area (63 million hectares) is cultivated in any year and only half of this is irrigated. Wheat is the most important crop and is grown in over 60 percent of the cultivated area. Productivity, however, is low, averaging about 1.5 ton per hectare for irrigated wheat. As a result, farm incomes are also low, rarely greater than \$100 per capita on irrigated farms of 1.5 to 3.0 hectares. Approximately 25 percent of the rural population is below the absolute poverty level of \$53 per capita and the average farm size is about 3.5 hectares of cultivable land.

Economic growth during the past ten years has been modest and just matching the population growth. The three 5-year plans (1957-1972) focused on infrastructure projects which had only marginal impact on the incomes and well-being of the majority of the people. At this time there is an urgent need to move towards projects which increase agricultural production and will have a direct effect on the living standards of the rural poor. The major constraints to increasing agricultural production are inefficient extension services, inadequate supply of agricultural inputs and limited availability of credit.

AID, IBRD and other donors are attempting to alleviate these constraints through various agricultural development projects. One of IBRD's projects is financial and technical assistance to the Agricultural Development Bank of Afghanistan (ADB). This project was initiated in 1964 during discussions with the United Nations Food and Agriculture Office. At that time the Government of Afghanistan expressed a strong interest in financial assistance to the ADB then known as the Agricultural and Cottage Industries Bank. The Government submitted a formal loan request to the IBRD in 1967 and the Bank responded by sending a team to analyze the ADB's operations later that year. The team recommended a complete reorganization of ADB, including technical assistance prior to providing an IDA loan. The United Nations

Development Program agreed to finance a three-year technical assistance program with IBRD serving as the implementing agency. In 1969 a four-man consultant team was engaged to assume managerial and staff training activities for reorganizing ADB. The ADB was appraised in November 1969 by an IDA team which subsequently approved a \$5 million loan in June 1970. Upon the successful completion of the first loan, another loan for \$13 million was approved in March 1975, and now a third agricultural credit is being considered by IDA.

AID's interest in this project developed as a result of a combination of factors: (1) an agricultural assessment indicating that adequate agricultural credit is not readily available to the small farmer; (2) AID's desire to broaden its assistance in the agriculture sector; (3) to support AID's proposed Wheat Development Project and complement the Afghan Fertilizer Company, and (4) IDA budget constraints prevent it from developing the project as originally conceived. Consequently, AID suggested and IBRD/IDA agreed that AID, through its own project, would consider providing \$5 million in the form of a grant to the ADB for financing agricultural input loans to small-scale farmers.

B. Project Description

Historically, the small-scale farmer has not fully participated in Afghanistan's developing agricultural sector. This situation still continues today and results partially from a paucity of available agricultural inputs such as credit and extension services. Many farmers work their small parcels of land without the benefit of modern farming methods or short-term credit. As a result, farming practices remain unchanged, yields per acre are constant or even decrease and the small-scale farmer produces at a minimal substance level. Some farmers, however, have received assistance from the government extension services along with agricultural loans from the ADB. These farmers have realized increases in agricultural productivity and are producing and selling crop surpluses. ADB's experience has shown that farmers are receptive to new farming practices and interested in borrowing funds to purchase agricultural inputs, particularly fertilizer. The ADB, however, has not been able to meet the demand for agricultural loans. Consequently, lending to small-scale farmers may not increase unless the Bank receives additional funds.

The project has been developed in concert with the third IBRD/IDA loan to the government of Afghanistan in the amount of \$12,000,000 and a Canadian International Development Association (CIDA) loan in the amount of \$4,730,000. Proceeds from loans are to be on-lent to the Agricultural Development Bank of Afghanistan (ADB) for its agricultural lending operations, supporting services, technical assistance and for preparing a study of the fertilizer industry. The details relating to the IDA credit are contained in Annex C. The IDA credit including its integrated CIDA component was negotiated with the GOA and was duly ratified on May 10, 1977. The IDA loan committee has recommended approval and formal action by IBRD/IDA is expected shortly. The project, as developed, anticipates a \$5.0 million participation by USAID in the form of a grant to GOA which would lend the full amount to the ADB for use in making short-term seasonal crop production loans (fertilizers and seeds) to the operators of small farms. In addition, the IDA loan provides U.S. \$1,756,000 and the CIDA loan provides \$690,000 for these seasonal crop production loans. The total allocation for these seasonal loans would be \$7,446,000 including the \$5.0 million USAID grant. A key condition with respect to the effectiveness of the IDA loan is the approval of the USAID \$5.0 million grant for fertilizer and seasonal crop production inputs.

The GOA proposes to loan to ADB the funds that are provided under the IDA/CIDA loans and the USAID grant. The terms of the loan would provide for a 15-year loan with a five year grace period and interest at the rate of 4.5 percent per annum during the grace and amortization periods. ADB would be reimbursed for 70 percent of the incremental value of its seasonal crop production loans with the base period to be the year from September 1, 1976, through August 31, 1977, which encompasses the 1976 fall planting season and the 1977 spring planting season. Accurate computation of the base period will not be possible until after August 31, 1977. However, present indications are that the base will be approximately Afs 600,000,000. From September 1, 1977 to August 31, 1978 ADB would finance from its own sources an amount equal to the base period sum plus 30 percent of the incremental amount. It would be reimbursed for the 70 percent of these incremental loans with IDA and CIDA together handling 23 percent and USAID financing the remaining 47 percent. Reimbursement of incremental loans (or possibly the final accounting if advances should be required) would not

take place until after the completion of the fall and spring cropping seasons of the lending year ending August 31, 1978. Subsequent reimbursements would be made on an annual basis thereafter until the full grant is utilized or until the terminal disbursement date of the grant, whichever date comes first.

Principal sums received in payment from former borrowers in excess of amounts required to amortize the GOA-USAID grant source loan would be utilized for the same type of seasonal crop production loans to the operators of small farms as were serviced during the USAID reimbursement (drawdown) period for a minimum of two years following the last reimbursement. Interest collected from borrowers shall not be tied and may be utilized by ADB to service its interest payments to GOA, for operating expenses, to augment its loan funds and for any other purpose consistent with its charter.

The ADB will be the implementing agency and will be responsible for carrying out the project activities. The ADB will utilize the fertilizer and pesticide procurement and distribution services of the Afghan Fertilizer Company (AFC), its fully owned subsidiary company to procure and distribute ADB-financed fertilizer to borrowers. Improved seeds will be available from the newly organized Afghan Seed Company which is responsible for seed multiplication and distribution.

Fertilizer and improved seeds are essential production inputs without which the operators of small Afghan crop farms cannot hope to increase their production and incomes. Since commercial fertilizer application does not exceed ten percent of the irrigable land area in Afghanistan, there is great potential for increasing fertilizer use and crop production if farmers can obtain agricultural credit. This project is based on the concept of providing small farmers with adequate seasonal production credit that will result in incremental fertilizer use when compared with the 1976/77 base year. Since USAID funds (\$5.0 million - Afs 250,000,000 @ Afs 50 per dollar) will be utilized to reimburse incremental use of fertilizer and seasonal production inputs, production of wheat will be increased significantly in absolute amounts but only slightly compared to total wheat production. It is assumed that GOA price policies will include adequate incentives for small farmers to increase production. Based on the ADB's past lending record for fertilizer and improved seed which has

provided average small farmer loans of about Afs 10,000 (\$200), USAID's Afs 250,000,000 grant would provide ADB with sufficient loan funds for about 25,000 small farmers to fertilize 50,000 hectares or 250,000 jeribs of crops which would not be fertilized otherwise. The maximum seasonal loan period is for one year so the USAID funds are expected to revolve several times before the five year grace period expires and amortization of the GOA loan to ADB begins. Funds generated from ADB profits and principal sums still available to ADB during the amortization period will continue to revolve and be utilized for production credit to small farmers.

C. Prior AID Experience

Several years ago AID was involved in agricultural credit in Afghanistan in an association with the Helmand-Arghandab Agricultural Finance Agency. AID experienced modest success in providing farm inputs and extending credit to farmers who were working small plots of land in the Helmand Valley. When AID's assistance was completed, the finance agency became a subsidiary (1970) of and subsequently incorporated with ADB on March 21, 1973. Under ADB's management most of the small farmer loans were collected and the credit program expanded to include mid- and long-term loans.

AID's world-wide agricultural credit experience is considerably more extensive, with exposure to many of the frustrations common in assisting third world countries in developing their agricultural sectors. One of the features of AID's agricultural credit programs has been the extent of their attention to small farmers. Of 42 AID country programs, 35 have concentrated on the small farmer. This applies to programs in Taiwan and South Korea where all the farms are small, so that no special small farmer emphasis was required; but the figure also includes 16 of the 18 programs in Latin America where wide disparities in farm size are usual. This small farmer bias does not necessarily extend to the very poorest farmers or to landless farm workers, but refers to viable small producers. It is important to note that our lessons of experience indicate that extending credit only to poor farmers will not guarantee success. Other necessary ingredients must accompany credit if we expect increases in food production followed by an improvement in farmers' incomes.

Some of the prerequisites to a successful agricultural credit program are: farmers possessing viable and economic plots of land; adequate irrigation; markets for crops; available transportation and reasonable network of roads; agricultural extension services; and finally farmers' desire and ability to change from traditional farming practices to modern methods which encourage using improved seeds and fertilizer. Evidence suggests that all of the above requirements are present in varying degrees in many areas of Afghanistan. Furthermore, small-scale farmers who inhabit these areas have the incentive and farming knowledge to increase crop yields if credit is available to purchase critical agricultural inputs.

D. Other Donor Involvement

The IBRD and UNDP are the only donors presently assisting the ADB. This is IBRD/IDA's third credit to ADB. Initial assistance was made available to ADB in December 1970 for \$5 million followed by a second credit in July 1975 for \$13 million. Another important donor is UNDP, which provides advisors to the ADB and will probably continue this arrangement during the implementation of the proposed project. The IBRD also is assisting with the expansion of the country's three vocational agriculture schools and developing four new schools for agricultural instruction. These schools train most of the agricultural extension agents. The IBRD is involved in the fertilizer distribution in Afghanistan and has financed the construction of 24 regional fertilizer warehouses for the Afghan Fertilizer Company. Additional IBRD/IDA agricultural sector projects are the Khanabad Irrigation Project and two credits for the Livestock Development Project. Other important donors involved in this sector are the French Technical Assistance Mission, which is active in research and extension services for cotton, and the Asian Development Bank which has provided a \$14 million loan to assist in financing the development of the Afghan Seed Company.

III. AGRICULTURAL AND RURAL DEVELOPMENT OBJECTIVES AND GOALS

The Government of Afghanistan's basic development objectives are:

- a. To increase agricultural production, particularly wheat and other food grains to realize self-sufficiency in food and conserve foreign exchange. The GOA will attempt to increase wheat production from 2.05 million tons in 1976 to 3.5 million tons by 1983.
- b. Increase agricultural productivity and farmers' income by providing credit facilities for farm inputs and agricultural investments.
- c. Improve rural families' standard of living and establish a more equitable adjustment in income distribution.

These objectives are reasonable given the size of the rural population. The Government is fully committed to actively pursue rapid social and economic development in rural areas in order to raise farm families' living standards and increase food production. Since the vast majority of people live in rural areas, it is not surprising that the Government has focused on agricultural and rural development.

Obtaining these objectives may, however, be difficult without foreign donor assistance. The overall poverty of Afghanistan coupled with the low levels of public and private sector savings limits the accomplishments that a Government development plan can achieve by utilizing only domestic revenues.

IV. THE AGRICULTURAL SECTOR

The further development of the agricultural sector is necessary if living conditions are to improve for the majority of the rural population. Agriculture accounts for 50 percent of GDP and is clearly one of the most important sectors in the economy. Besides providing virtually all of the food requirements for the rural population, domestic agricultural production also supplies most of the food for the urban population.

The main activities of this sector are wheat growing and animal husbandry. Foodgrain production uses approximately 90 percent of the total cultivable land area, with wheat acreage utilizing about 60 percent of the total. Cash crops such as cotton, sugar beets, fruits and nuts serve as important foreign exchange earners and account for an estimated 45 percent of total export earnings. Livestock, mainly sheep, contributes to export earnings and provides raw materials for the local handicraft industry. The growth in this sector has been modest over the past years, partially due to the limited utilization of modern agricultural inputs. The use of fertilizers, improved seeds, pesticides and farm equipment have not been employed to the fullest extent possible. Consequently, there is considerable potential for increased agricultural productivity through a greater utilization of agricultural inputs and farmer education programs.

Over the years, the major portion of development expenditures has been directed to infrastructural projects such as power, transportation and irrigation. Some of this development has focused on the agricultural sector to provide feeder roads, small irrigation systems, water drainage canals, distribution of fertilizer and other modern inputs along with extension services. Although some capital intensive infrastructural projects were constructed to increase agricultural development, total crop production has been disappointing. This resulted mainly from limited coordination between Government agricultural agencies and farmers, coupled with a lack of available credit for agricultural inputs.

If this problem is to be alleviated, the Ministry of Agriculture and the ADB must receive financial assistance to provide modern agricultural inputs and to improve farming methods. These activities include the distribution of fertilizers, improved seeds and pesticides, increased extension services and the establishment of model and experimental farms. To date, the fertilizer distribution program has been the most successful and has made the greatest impact on agricultural production. Most of the fertilizer distributed to farmers is sold on credit provided by the ADB.

The ADB is the only source of reasonably priced credit for agriculture. In the absence of ADB credit facilities, farmers must turn to the local money bazaar for short-term loans at interest rates which are considerably higher than ADB's. Although finance charges are expensive, many farmers depend on the bazaar for agricultural credit.

V. FINANCIAL INSTITUTIONS

A. Banks in Afghanistan

The banking system includes several different institutions with the Da Afghanistan Bank serving as the main government bank providing central bank and commercial banking functions. Other local banks are the Agricultural Development Bank (ADB), the Industrial Development Bank of Afghanistan (IDBA), the Mortgage and Construction Bank (MCB) and two commercial banks, the Bank Mellie and the Pashtany-Tejaraty Bank. All banks are owned by the Government. Da Afghanistan Bank and Bank Mellie handle about 75 percent and 10 percent respectively of total banking transactions conducted in the country.

The local money bazaar provides financial services, financing an estimated 50 percent of Afghanistan's foreign trade and a considerable amount of local agricultural credit for farmers. Financial requirements of most Afghans are satisfied through the bazaar or other non-institutional sources of credit. Commercial banks usually grant loans to businessmen and companies with established banking connections. Government has made a decision to establish an Export Promotion Bank to provide an additional source of export credit besides what is presently available through the bazaar, Da Afghanistan Bank and the two commercial banks.

The development of institutional credit for agriculture has just started to make inroads to farmers' credit requirements. The majority of loans for consumer and agricultural credit comes from the bazaar, merchants and friends. In 1972 total institutional credit was \$38 million, which represented less than 4 percent of agricultural production and was directed to about 2 percent of the rural households.

B. The Agricultural Development Bank (ADB)

The ADB is the only source of institutional credit for farmers in Afghanistan. This bank was started in 1954 by the Government to fulfill credit requirements for the agricultural sector. After years of difficult operations, the bank was re-organized in 1969 with a UNDP Technical Assistance Mission participating in management and training since September of that

year. A consultant firm has been retained (Hendrikson Associates, of West Germany) to develop the AgBank's organization, operations and to undertake management and training responsibilities. The team consists of a general manager, credit advisor and an accounting advisor. In conjunction with the technical assistance project, the International Bank for Reconstruction and Development (IBRD), through the International Development Association (IDA) provided a loan in 1970 for \$5 million to finance a three-year lending program by the ADB. After successfully completing this project, IDA provided a second loan for \$13 million in 1975. These funds are fully committed. Since the reorganization and IDA assistance, loan disbursements increased from 44 loans for Afs 2.6 million (\$52,000) in 1970 to Afs 715.6 million (\$22.7 million) for 47,764 loans at the end of 1975/76. The average size of a loan was Afs 14,981 (\$300) in 1975/76. The most important lending activity in AgBank's operations is short-term loans for agricultural inputs, which in 1975/76 represented 71 percent of the total loan portfolio and 98 percent of the total number of outstanding loans. IBRD
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The ADB operates under a Government charter which allows it to have an efficient and flexible management. Its policies and guidelines are developed by governmental officials, consisting of Ministers of Finance, Agriculture, Planning and Commerce, the Da Afghanistan Bank and including the president and general manager of ADB. The operations of ADB are departmentalized into offices of credit, finance, administration and staff. There are thirteen main branches and five sub-branches scattered throughout Afghanistan. See Annex D for a map showing ADB locations in Afghanistan. Most of these branches are relatively new and are developing into important sources of agricultural credit. New branches are only opened following a feasibility study to determine the demand for agricultural credit in a specific area. ADB plans to open two branches each year over the next five years.

The president of ADB is the chief executive officer and he is assisted by the departmental vice presidents. ADB managers are usually university graduates with several years experience. The bank employs over 894 persons, which includes 348 professional staff and 85 women. The increase in professional staff reflects the success of ADB in recruiting qualified persons.

The services and operations of ADB are administered through four departments, each headed by a vice-president, located at its head office in Kabul. These departments are: credit, finance, administration, and staff. A fifth department, supply, was

functionally separated in March 1976 to form the nucleus of a separate subsidiary, Agricultural Machines and Service Company (AMSCO). See Annex E for the ADB's organizational chart. The functions of each department are as follows:

- (1) Credit Department is responsible for all credit activities. The vice-president is assisted by an assistant credit manager. The operating divisions are: collection, credit services, fertilizer and credit implementation. The credit services division processes and appraises loan applications, prepares recommendations and supervises disbursement. The credit implementation division ensures compliance with security requirements, prepares the loan contracts, fixes disbursement schedules and is responsible for safekeeping of security documents. The fertilizer division is responsible for organizing and controlling the disbursement of loans under the fertilizer credit program. The collection division is responsible for recovery of all non-fertilizer loans made by ADB. This department has reasonably competent staff.
- (2) Finance Department consists of three different divisions: the customer division, which performs all banking services for the customers; the accounts division, responsible for all accounting work of ADB and balance sheet division which is responsible for preparation of financial matters. The three division heads report to an assistant finance manager who is responsible to the vice-president finance, a position which has never been filled since the 1969 reorganization. The expatriate finance manager who previously headed the department changed to an advisory position as of September 1975 at the commencement of the third phase of technical assistance. The department continues to be deficient in middle and high level staff. In view of the expanding size and complexity of ADB operations and resource problems, the capability of the department needs to be strengthened in several areas. The position of vice-president finance as well as the two vacant positions of division head need to be filled.

- (3) Administration Department has two divisions, personnel and administration, dealing with employment and general administrative functions.
- (4) Staff Department is directly responsible to the president and general manager. It consists of the following divisions: secretariat, training, inspection, organization, and research and statistics. The organization division is responsible for drafting job descriptions, updating organization charts and identifying staff shortcomings and needs. The inspection division, recently established, acts as the internal auditing body, verifying compliance with the regulations and procedures in force. The research and statistics division is responsible for the collection, preparation and evaluation of all external and internal statistical data concerned with ADB's activities.

ADB is in the processes of strengthening its organizational structure by increasing the professional staff; decentralizing operations by allowing the branches to exercise greater authority; and improving the banking activities that involve lending to small-scale farmers. ||| ←

Branch offices are receiving a greater number of technically trained staff to carryout loan appraisals, approvals and supervision for mid- to long-term loans. By concentrating on these functions, ADB personnel become knowledgeable of borrowers' financial situation and are better prepared to assist the farmer as well as determine his credit worthiness. This enables the ADB to ascertain which prospective borrowers are likely to have the ability to raise and market crops and repay ADB loans. Greater knowledge of the farmer will eliminate some of ADB's risk in lending to farmers. Advantages of becoming better informed of a farmer's business and farming practices could lead the ADB to relax loan collateral requirements. Improved loan supervision should be another reliable source of loan security for the bank.

Future organizational plans include the delegation of authority to the assistant branch managers and division heads of the credit department for mid- and long-term loans. These officials already have the authority to approve group fertilizer loans. Additionally, all branches will have a deputy branch manager who

will be responsible for fertilizer loans and work closely with the bank officer responsible for fertilizer credit. Furthermore, the deputy branch manager will assist the farmer in preparing cropping and financial plans as well as advising him of the appropriate quantity of fertilizer application to specific crops. Experience from previous years has indicated that the permanent field staff available for the review and collection of fertilizer/seed loans is insufficient. Consequently, ~~65 additional~~ field staff will be employed this year, which will increase the ADB permanent fertilizer staff to 166 persons. All newly employed staff will participate in an intensive, three week training program in Kabul. During the peak of the fertilizer distribution period, ADB hires 45 to 95 temporary staff to assist the branches.

ADB recognizes the importance of training employees and has established well developed training programs for various categories of staff.

The basic training program was established in 1971 and is composed of on-the-job and classroom training carried out by ADB staff. The course duration is 12 months, and various aspects of banking are covered. The trainees, who are college graduates, are employed as bank professionals on successfully passing the final examinations. The most recent class completed the course in December 1976, with 29 trainees passing the examination out of a class of 29 candidates. The 1977 training course has 29 candidates, including 11 women.

The field inspector training program was started in 1972 with the objective of improving ADB's field service. Most of the trainees are college graduates selected by means of an entrance examination. Since its inception, 73 trainees have completed the program, and are employed in various positions at headquarters and in the branches. The recent group of 19 field inspector trainees have been assigned to the fertilizer program.

Special training courses for middle management were established at the beginning of the third phase of the UNDP Technical Assistance Project. Beginning in March 1976 a series of 12 courses, each of three months, are being conducted by the expatriate staff of ADB. The courses are: agriculture and agricultural institutions, bank organization and internal inspection, agribusiness financing, computerization of accounts, credit supervision, preparation of annual balance sheets, personnel planning and cost forecasts. Each course has an average of 10 participants. Over a period of three

years all the middle management personnel of ADB are expected to have gone through this training.

In addition to the internal training programs, a fellowship training program is being conducted outside of ADB. To date, a total of 39 staff members have attended various seminars/workshops abroad, on scholarships and fellowships.

Branch training and regional seminars for branch managers are held in all branches to provide on-the-job training twice a year for branch personnel by specialists from headquarters. Regional seminars for branch managers are being planned to discuss problems between branches and headquarters and coordination of field work.

The objective of the ADB is to improve the economic conditions of farmers and increase farm productivity. ADB performs a major role in the promotion of agricultural development in its capacity as virtually the sole source of agricultural credit to small-scale farmers. The bank supplies a wide range of short-term production loans for purchasing fertilizer, seed and plant chemicals. Longer term lending is for tractors and farm implements, irrigation equipment, livestock development, agribusiness investments, farm mechanization and on-farm development. Short-term fertilizer loans are made in kind and are secured by joint and several guarantees, while medium-term loans are made with promissory notes. Long-term lending is secured by fixed assets as collateral and farmers are required to provide 20 percent of the cost of the investment, except for water wheels and animal implements. Medium- and long-term loans are made only after proper financial and technical appraisals have been conducted by ADB officials. Interest rates charged on loans are 10% for short-term and 8% for medium- and long-term lending.

The fertilizer program is endorsed by the GOA with ADB and AFC* jointly managing the activities of the program. The GOA has agreed to compensate ADB for fertilizer loans in default for periods exceeding one year. Short-term lending for agricultural inputs, especially fertilizer, has become ADB's major activity. The lending policy for fertilizer and seeds is an informal and effective system which includes reviewing a farmer's group loan application and confirming the prior repayment record as well as the number of jeribs under cultivation. Loan security is arranged by joint and several guarantees of five to ten farmers. There is no individual farmer appraisal for loans under the fertilizer credit program. Farmers in groups or individually contact ADB branch fertilizer

*Afghan Fertilizer Company (AFC) is the only fertilizer distribution organization in the country and is a wholly owned subsidiary of ADB.

staff and present their identity cards and a receipt showing that they or their landlords have paid the land tax. If there is no overdue outstanding debt against the farmer, he is asked to fill out a form which serves as the loan application, loan contract and disbursement voucher. The extension agent of the Ministry of Agriculture certifies the crop acreage, and the village chief certifies other information given by the applicant. The Sub-Governor verifies the identity of the village chief. The completed form is taken by the farmer to AFC which delivers the fertilizer. This is a very effective loan delivery system. However, no appraisal is done and ADB does not reject an application except in the case of prior loan defaulters. The loan amount is based on AFC's fertilizer recommendations for specific crops. See Annex F for a sample application of a group fertilizer loan.

Annual loan repayments have ranged from 65-70 percent for short-term loans at the end of the first year. Most loans, however, are recovered in later years. For example, 77 percent of short-term loans made in 1972/73 were repaid at the end of 1973/74 and increased to 93 percent repayment by the end of 1975/76. Over the years, the quality of ADB's loan portfolio has improved. Short-term loan repayment cycle has decreased from two-three years to under two years. There is an increasing awareness by small farmers of the importance of maintaining a sound credit rating. This is evident by the consistent improvement in loan recoveries and indicative of a growing credit discipline among borrowers.

ADB has developed credit manuals setting out the procedures for processing medium- and long-term loans. Normally, farmers apply for loans in one of AgBank's branch offices. After verification of land ownership a field inspector visits the farm, the farmer completes the loan application along with comments by the field inspector to the branch manager, who forwards it to the credit services division of ADB. The economic and, if necessary, the technical appraisals are made in this division. The economic evaluation consists of a farm planning and budgeting exercise which compares pre-project and post-project incomes of the farmer and computes the loan repayment schedule.

ADB follows traditional banking practices and is considered financially sound. Top management and expatriate consultants are well trained both academically and with agricultural credit experience. Most middle level managers and newly hired professionals are college graduates and have received additional training in ADB's banking program. Equity as of March 20, 1977 totaled Afs 733

million (\$14.7 million), an increase of Afs 315.1 million (\$6.3 million) from March 20, 1973. Authorized share capital is Afs 1,000 million (\$20 million), of which Afs 577.2 million (\$11.5 million) was paid-up as of March 20, 1976. Reserves and retained earnings amounted to Afs 155.8 million (\$3.12 million) as of March 20, 1976. Paid-up authorized share capital increased to Afs 605.1 million (\$12.1 million) and total equity is estimated at Afs 850 million (\$17 million) as of March 20, 1977, the end of ADB's fiscal year. Operating funds were provided initially by Government's equity contribution, then augmented by long-term debt and ADB's annual retained earnings. Refer to Annex G for detailed balance sheets for years 1973 through 1976.

The bank's loan portfolio increased nearly five-fold since 1973 with the number of executed loans growing from 462 in 1972 to 47,764 in 1976. During this period, greater emphasis was made to reach the small-scale farmer, resulting in an average loan decreasing from Afs 471,853 (\$9,437) to Afs 14,981 (\$300) and fertilizer/seed loans averaging Afs 9,300 (\$186). In earlier years farm mechanization loans dominated ADB's portfolio - 436 loans valued at Afs 118,034,000 (\$2.4 million) in 1973 compared to no fertilizer or seed loans. Since then major lending changes have taken place. In 1976 farm mechanization loans numbered 466 for a total amount of 93,032,000 (\$1.9 million), a slight increase in number of loans but a lower total Afs. Meanwhile, 46,784 fertilizer and seed loans were made in 1975/76 for a total value of Afs 510,142,000 (\$10.2 million), representing 98 percent of total number of loans executed and 71 percent of the total Afs authorized.

Loans are financed primarily by Government equity, long-term debt, and time-deposits. Internally generated funds such as retained earnings provide minimal funds for expansion of ADB's loan portfolio. If the overall objectives are to supply a greater volume of agricultural credit and to expand the loan portfolio then ADB must rely on external funds. Historically, the bank's growth has followed this path, as is evident from the sources and uses of funds analysis in Annex H. Debt, time deposits, equity, and to a small extent, demand deposits, have all been financial sources to meet the bank's lending requirements. Some of the latter funds are 90 to 180 day deposits and therefore are difficult, as well as imprudent, to match against one year loan maturities. Only in 1976 were time deposits drawn-down prematurely in order to meet short-term obligations. This, however, necessitated ADB to incur short-term borrowing from Da Afghanistan Bank (DAB) in order to maintain liquidity. During this period ADB's total mid- and long-

term loan portfolio value decreased by 47 percent for the first time since 1970, although the number of loans increased by 32 percent. Withdrawal of time deposits could have affected ADB's ability to increase the volume of long-term loans.

In 1975/76, long-term resources served as sources for both short- and long-term lending requirements. Usually, short-term needs such as fertilizer loans have been satisfied by short-term funds. Additional debt financing is necessary if the bank's lending operations are to grow at a pace to match borrowers' demands for loans. ADB's capital base is conservatively structured with long-term debt to equity at 0.65 to 1. Financial leverage could be increased by increasing debt/equity rates to 0.70 to 1 without jeopardizing the overall financial position of ADB. Annual interest charges are covered 5.2 times by gross earnings, an adequate margin of safety for development banks.

Agricultural credit loan repayment records indicate that slightly over 80 percent of long- and medium-term loans and 65 percent of short-term loans were repaid in 1975/76. Bad debt losses on medium- and long-term loans are fully covered by a provision for doubtful debts and short-term loan defaults are completely covered by the Government's guarantee for full reimbursement.

Operating expenses in 1975/76 showed a marked increase of 39 percent over the prior year, resulting in operating expenses reaching 8.7 percent of average loan portfolio compared to 6.8 percent in 1974/75. Consequently, net profit dropped to 4.2 percent of the loan portfolio compared to 4.7 percent in the previous year, while the loan portfolio increased by 12.6 percent over 1974/75. Return on net profits were lower for three reasons: (1) although total value of loans made in 1975/76 were 11 percent less than 1974/75, the number of loans dropped only 1 percent, resulting in a decrease in average loan value from Afs 16,772 (\$335) to Afs 14,981 (\$300) which increased loan processing expenses; (2) ADB's net profits for supply operations dropped by 18.5 percent, amounting to Afs 7.5 million (\$150,000); and (3) staff production/efficiency showed a decline from previous years; primarily caused by extensive recruiting and training of 261 new employees, representing a 49 percent increase. These are characteristics of a rapidly expanding organization experiencing operating inefficiencies. In this situation the principle problem is attempting to thoroughly and expeditiously train newly hired staff to perform efficiently with the minimum of supervision by middle management.

ADB continues to provide local training and intends to strengthen the training program by sending a few employees overseas for advanced training. The supply department of ADB has also grown quickly and presently requires greater managerial attention than the bank's overworked management can provide. Therefore the supply department will be separated from ADB's immediate management and developed into a subsidiary company, Agricultural Machines and Service Company, owned and controlled by ADB.

Although net income reached a plateau in 1975/76, gross earnings on banking operations increased by 34 percent to Afs 149.4 million (\$3 million) and total revenues, combining banking and supply operations, grew by 21 percent to Afs 186.5 million (\$3.7 million). Clearly, the potential for increasing the loan portfolio and net earnings is favorable over the next few years.

Fertilizer and seed loans, the mainstay of ADB's profits, have increased from 1,434 loans totaling Afs 11.5 million (\$0.2 million) in 1971/72 to 46,784 loans amounting to Afs 510.1 million (\$10.2 million) in 1975/76, with 1976/77 estimated at Afs 600 million. In 1975/76 this category of loan produced 50 percent of ADB's net income and should represent 55 percent of net income in 1976/77. With the Government's loan default guarantee and the 4.5 percent average cost of capital, the ADB incurs minimal risk in lending to small-scale farmers.

Pro forma balance sheets and income statements for ADB are presented in Annexes I and J respectively. The estimated increase in loan disbursements is about 15 percent per annum with lending activities continuing to move toward smaller loans. Net loan portfolio should increase to Afs 4070.3 million (\$81.4 million). Loan volume, however, is given no greater importance than strengthening the lending and operational effectiveness of the ADB. The bank's lending cash position varies over a range of Afs 426.8 million (\$8.6 million) to Afs 140.6 million (\$2.8 million) from 1976/77 through 1981/82. This assumes that liquidity requirements will be more predictable with no wide oscillating cash movements and ADB receives timely loan repayments. Provisions for loan defaults are increased sufficiently to cover mid- and long-term loans. Net income after taxes is estimated to remain fairly stable and then gradually increase as the bank improves operating efficiency and maximizes financial leverage. Based on past loan repayments, ADB should have no difficulty in meeting its debt obligations to the Government and to lending institutions. ADB's future financial viability and managerial strength depends on its ability to: continue active staff training programs; improve loan repayment rates; develop a system to cover losses on short-term lending; and improve operating efficiency.

VI. THE AFGHAN FERTILIZER COMPANY (AFC)

Through USAID financial and technical assistance the AFC was established in 1973. It has the responsibility to procure, store, transport and distribute fertilizer throughout the country as well as advise farmers of the appropriate quantity of fertilizer and pesticide application for crops. AFC has its main office in Kabul plus 450 retail outlets and about 600 employees scattered throughout the country. Fertilizer storage capacity approaches 80,000 tons and the erecting of 69-800 ton capacity warehouses is in various stages of construction. See Annex L for organization chart.

Retail fertilizer prices are established by the Government and are presently Afs 9,600 (\$192) per metric ton for urea and Afs 11,000 (\$220) per metric ton for diammonium phosphate (DAP). The urea price is about \$40 higher than the world price and DAP is sold at the current world price. The Government's domestic plant at Mazar-i-sharif supplies urea to AFC for Afs 7,500 (\$150) per metric ton including transportation. This is a reduction of Afs 2,500 (\$50) per ton since 1976. The plant's urea production is currently averaging about 30,000 metric tons per year and production capacity is estimated at 105,000 metric tons per year. After 1980, additional urea will have to be imported or a second plant constructed in order to handle expected fertilizer demand. Presently all DAP is imported. 1978 DAP requirements are estimated at 32,000 metric tons.

Following is annual fertilizer distribution from 1973/74 through 1976/77:

<u>Year</u>	<u>Urea</u>	<u>DAP</u>	<u>Total</u>
1973/74	30,706	13,909	44,615
1974/75	42,856	19,609	62,465
1975/76	50,909	18,840	69,749
1976/77	54,271	26,902	81,173*
est. 1977/78	64,000	32,000	96,000

*In addition to Urea and DAP, a total of 2,247 metric tons of triple super phosphate, potassium sulphate and single super phosphate were distributed.

AFC has been almost entirely dependent upon Government funding to meet its operating expenses. Until Government's recent decision to provide Afs 500 million (\$10 million) cash infusion and reducing the cost of urea, the GOA had paid only small amounts of subsidies and other payments to AFC. The Government reduced the price of urea in an attempt to improve AFC's financial position and to decrease the need for future subsidy payments. Another financial burden that AFC carried during 1973/74 and 1974/75, was an agreement with ADB to assume 70 percent of the financing for fertilizer loans which ADB made to small-scale farmers. AFC was paid 30 percent of the value of all fertilizer distributed on credit by ADB. The remaining 70 percent of the loan amount was credited to AFC's time deposit account at ADB and earned interest for the year. This procedure was changed in the 1975/76 fertilizer credit program. AFC was paid 71 percent of the fertilizer credit loans and the remaining 29 percent was held in AFC's time deposit account until the farmers repaid their loans. Essentially, AFC finances 29 percent of all small farmer fertilizer loans and earns 3 percent interest on total Afs credited to its time deposit account at ADB. Under the present arrangement with ADB and since the GOA reduced the cost of urea, AFC's financial situation has improved considerably compared to previous years. Below is an estimated source and use of funds statement for AFC's recent fiscal year, ending on March 20, 1977.

Source of Funds

(Millions of Afs)

Cash balance	728.0
Cash sales	13.0
Receivables from ADB	270.2
Total	<u>1,011.2</u>

Use of Funds

Accounts Payable for:

Government for Repayment of FAO and Japanese Fertilizer Grants to GOA	170.0
Construction of warehouses	15.0
GOA fertilizer plant for urea	66.0
Subtotal	<u>251.0</u>

Projected Purchases:

26,000 mt of DAP	279.0
8,000 mt of urea	46.0
Agro Chemicals	40.0
Subtotal	<u>365.0</u>

Use of Funds (cont'd)(Millions of Afs)

Operations:

operating expenses	12.0
freight cost for fertilizer	20.0
capital budget	16.0
Subtotal	<u>48.0</u>

Total

664.0

Increase in Working capital

347.2

If AFC is to continue operating with a positive cash flow, then the retail price of fertilizer should remain at Afs 9,600 (\$192) and Afs 11,000 (\$220) for urea and DAP respectively. Also, AID should favorably consider providing \$1.5 million dollar advance to ADB, from the proposed grant, to loan to AFC to purchase DAP for the expected increase in fertilizer loans.

The Government and AFC informally requested the entire \$5 million grant be made available as an advance for purchasing DAP. AID, however, determined that this amount was not necessary since the AFC's financial position has improved and \$1.5 million is an appropriate amount to allow AFC to maintain a healthy cash position as well as purchase sufficient quantities of DAP to respond to an anticipated increase in small-scale farmer fertilizer loans. This amount represents the estimated DAP requirement which will be generated by the combined project. Therefore, it is recommended that this advance be made available to ADB for AFC's use.

VII. PROJECT ANALYSES

A. Social Analysis and Beneficiaries

Farmers who receive seasonal crop production loans will, in keeping with AID's small farmer mandate, be small farmers with irrigable land holdings averaging approximately 10.7 jeribs or approximately 2 hectares (1 hectare = 5.0 jeribs). The analysis of ADB unpublished statistics covering its fertilizer/seasonal crop loans to 47,370 borrowers under its joint and several liability group procedures during the ADB's fiscal 1975 year (March 21, 1974 - March 20, 1975) firmly substantiates the fact that small farmers have been the beneficiaries of ADB's seasonal lending programs. Insignificant numbers of fertilizer loans were made to individuals on a non-group basis (only 11 farmers in 1974, 2 in 1975 and 1 in 1976). A summary of these ADB statistics classified according to area of irrigable land is included in the following table:

SUMMARY OF ADB GROUP BASIS
SEASONAL CROP LOANS
FOR 1974/75
CLASSIFIED ACCORDING TO IRRIGABLE LAND AREA

Size of Plot (Jeribs)	Number of Borrowers	Percent of Borrowers	Total Land Area (Jeribs)	Percent of Land Area	Average Jeribs Per Borrower
10 and less	33,670	71.1	178,992	35.4	5.3
10.1-20	8,328	17.6	134,069	26.6	16.1
20.1-30	2,768	5.8	75,870	15.0	27.4
30.1-40	1,247	2.6	46,949	9.3	37.6
40.1-50	1,284	2.7	63,495	12.6	49.4
50 and more	73	0.2	5,589	1.1	76.6
TOTALS	47,370**	100.0	504,964	100.0	10.7*

*Column is non-additive

**Final accounting recorded an additional 37 borrowers, for a total of 47,407.

During the year 1974/75 the average loan per borrower for the 47,407 small-scale farmers who participated in the group fertilizer lending program was Afs 8,827 (\$177) with the total amounting to Afs 418,449,000. For the year 1975/76 the comparable figures for 46,784 borrowers were Afs 10,904 (\$218) per borrower with a total loan volume of Afs 510,142,000. Comparable figures for 1976/77 were Afs 9,979 (\$200) per borrower for 57,435 borrowers amounting to Afs 573,132,000. Since the average loan per borrower has remained relatively stable with an increasing volume of total lending, it seems reasonable to assume that the complete small farmer bias remains. Loans under the project derived from USAID source funds are expected to average approximately Afs 10,000 (US \$200) per borrower with a size distribution similar to that demonstrated in the table. It should be clearly recognized that loans which average Afs 10,000 are very small from an institutional credit viewpoint even though they are handled on a group basis for loan safety and peer pressure collection purposes. As ADB's group-lending expands there is a strong possibility that the small farmer bias will be further strengthened, which could result in the average size of loan decreasing to less than Afs 10,000.

Farms with up to and even exceeding 50 jeribs (10 hectares) of irrigable land are, in fact, small farms given the variety of farming conditions in the various areas of Afghanistan. For example, there are differences in the supply of irrigation water from year to year even in the areas favored with large upstream impoundments. In areas which depend on stream flow and underground canals, the variations may be such that a farmer who operates 50 jeribs or more of "so-called" irrigable land may only be able to provide water for part of his land during the primary cropping season. Water may be more limiting during the second crop season (double cropping) and climatic and other factors may severely restrict second crop potential. This is particularly obvious in years like 1977 when snow cover in the mountains is light and stream flow will be below average.

USAID's \$5.0 million grant when allocated to seasonal fertilizer and crop production inputs loans averaging Afs 10,000 (\$200) per borrower would provide credit for approximately 25,000 farmers initially without considering the rollover of repayments during the period that ADB has access to the principal sum as provided under the proposed loan from GOA. Afghan extended families tend to be large with from 6 to 9 or more people being dependent on

a farm unit for their subsistence. Assuming an average of approximately seven members per family, approximately 175,000 individuals could be expected to benefit from the first rollover. Subsequent rollover during the five year grace period could provide for approximately 125,000 additional loans and 875,000 additional family members benefiting in view of the incremental lending character of the program.

The group credit program as presently structured is restricted to landed farmers. In order to be included in a joint and several liability group, the farmer must be able to demonstrate ownership through the presentation of a land tax receipt. These are certified for the groups by an authorized representative of the land office. The other signatures required are those of the village chief, who confirms the addresses and fertilizer needs of the group members and by the extension agent, who also attest to the land ownership of the group. The Sub-Governor confirms the identities and addresses of the village chief and land office representative. Neither down payments nor security are required. Inability to demonstrate ownership of land obviously frustrates some would-be fertilizer credit users but no statistics are available to quantify the numbers who claim land ownership but are unable to demonstrate land title ownership. The new land reform law is expected to clarify the land ownership status of increased numbers of farmers during the fertilizer credit project implementation period. ADB personnel, interviewed during a field trip to Kunduz and Baglan Provinces in northern Afghanistan, indicated that the number of such individuals are small now that GOA has implemented a scheme designed to bring about the taxation of land for all professed land owners. Cooperative agents pointed out that farmers who cannot demonstrate ownership of land but who are members of cooperatives are eligible for fertilizer credit provided that they have paid in the required share capital.

The group approach excludes from the group credit scheme individuals who operate as sharecroppers under the prevailing bazar system (usually provides labor in exchange for one-fifth of the crop), the kashtagar system (provides labor and other production inputs, usually in exchange for 40-60 percent of the crop) or the agradar system (a land rental arrangement based on annual rent, usually 3 to 5 years with the rent based on known land productivity). Share croppers are common, even on very small farms. A small sample of farmers interviewed in the Kunduz and Baglan areas indicated that their sharecroppers do benefit from the increased production resulting

from fertilizer use. It is recommended that the equity of the sharing of increased farm production by various forms of share-cropping be addressed in the project evaluation as a guide for the future.

Although the few farmers interviewed in the Kunduz-Baglan areas indicated that certification of land ownership is a negative factor for some, they indicated strong support for the group approach. They considered it to be a relatively simple way for large numbers of small farmers to obtain fertilizer credit. They indicated that there was seldom any difficulty for 5 to 10 neighbors and/or relatives who know and trust each other to agree to cooperate to their mutual advantage. They were candid in stating that peer pressure can be very intense when group members are associated with each other in most aspects of village life. The farmers interviewed are completely sold on the use of fertilizer and seemed satisfied that they had been able to use it to great economic advantage based on the relatively simple recommendations provided by ADB, Agricultural Extension and AFC. Wheat growers stated that before the advent of fertilizer and improved seeds, 50 seers (16 lb) yield per jerib was typical. This compares with 130 seers of wheat per jerib resulting from the use of fertilizer and improved seeds. They were equally enthusiastic about using fertilizer on their other important crops such as melons, sugar beets and cotton. Afghan farmers are good observers. Those who have seen their neighbors benefit from fertilizer use seem to want to get in on the act. Access to fertilizer on a credit basis appears to be the key to meeting a pent up demand by an increasing number of farmers.

The group approach to the provision of fertilizer credit was first initiated on a pilot basis in the Helmand Valley in 1971. The credit was made available for corn as a second crop. Farmers repaid those loans and from that beginning, the ADB has, over the years, gained considerable experience in refining and expanding the group approach. No system is perfect for handling masses of small farmer loans effectively at low cost but the ADB and Afghan farmers have demonstrated that the system works to mutual benefit of both parties. The ADB now has the experienced staff based on which to expand its services to a larger number of farmers as increased fertilizer supplies become available as the result of the project. It is adjusting its organization through the addition of a deputy manager in each branch office with responsibilities for the fertilizer lending program. Other

supporting staff are being assigned to district offices. The ADB will have the capability required to provide the expanded fertilizer credit services arising from this project.

It is estimated that incomes on most irrigated farms are low with 7-15 jerib farms having incomes of approximately Afs 5,000 (\$100) per capita. In view of the low and uncertain rainfall, dryland farms use little, if any, commercial fertilizer. It is assumed that ADB will rarely finance fertilizer for dryland farms and therefore dryland farming is excluded from consideration.

Although the sizes of land holdings may vary widely within and among the important agricultural production areas of Afghanistan the ADB's fertilizer lending program is directed toward small farmers as previously stated. Afghan farmers are influenced by their religion and strong tribal loyalties. They are hard working, independent and conservative but seem to be willing to cooperate in those instances where mutual interests are involved, such as constructing and maintaining primitive irrigation works. The joint and several liability groups seem to be culturally acceptable and there is a growing interest in cooperatives. Cooperatives are allowed to borrow up to ten times the members paid in share capital. ADB financing of fertilizer and seasonal crop production inputs for cooperative members through their cooperatives increased from Afs 16.4 million (\$0.3 million) for 24 cooperatives in 1974 to Afs 41.4 million (\$0.8 million) for 57 cooperatives in 1976. Cooperatives are able to obtain credit at 9 percent per annum and receive a discount of Afs 20 per 50 kg bag of fertilizer. Farmers pay the regular interest rate of 10 percent per annum and savings accrue to the cooperative society.

The role of women in the rural villages is likely to remain little changed as the result of the project. The increased incomes generated as the result of the project can be expected to provide some uplift in the levels of living within the family unit. Sometimes increased incomes provide the basis for the financing of another female presence in the household. The role of women, however, is increasing in the ADB. At present the ADB employs 85 women and 11 women are now enrolled in an intensive accounting course out of a total enrollment of 29 persons. Women are performing clerical services in some of the ADB's branch offices. It is highly unlikely that women will be employed as field inspectors since this would not be culturally acceptable in the villages.

B. Short-Term Credit and Fertilizer Demand and Supply Analysis

Potential demand for fertilizer financed by short-term agricultural credit exceeds significantly ADB's present financial and personnel resources. In 1974/75 only 7 percent of the total irrigated land area of 11.9 million jeribs received fertilizer. In that year 62,465 metric tons of fertilizer (urea and diammonium phosphate, DAP) were sold and applied to 861,962 jeribs. Credit sales financed 58 percent of fertilizer procurement and cash purchases accounted for the remaining 42 percent. In the following year total fertilizer sales were 69,749 metric tons. Rapid gains in fertilizer usage has continued to grow in recent years, with 1977 (March) consumption reaching approximately 84,000 metric tons. This quantity of fertilizer was applied to an estimated 1.3 million jeribs, representing about 10 percent of total irrigable land area in Afghanistan. See Annex M for detailed break-down of fertilizer sales from 1973 to 1977.

Demand for agricultural inputs, especially fertilizer and improved seeds continue to grow as a greater number of small farmers become aware of the larger crop yields that can be realized by utilizing these specialized inputs. Potential incremental fertilizer demand can be conservatively estimated at 525,000 metric tons. This estimate is based on the assumption that 30 percent of the 11.9 million jeribs of irrigable land remains idle every year due to an inadequate water supply to effectively utilize this portion of the land. After this deduction, remaining land area is 8.3 million jeribs, less 1.3 million jeribs using fertilizer this year, resulting in a balance of 7.0 million jeribs multiplied by 75 kgs of fertilizer per jerib for a total of 525,000 metric tons of fertilizer. Of this estimated demand, 65 percent or 341,250 metric tons would probably be financed by credit. This would indicate a credit demand of about \$69 million based on present retail fertilizer prices in Afghanistan. If the ADB is to assist in financing a portion of the projected fertilizer demand then additional capital is required for short-term agricultural loans. Below is a chart showing straight-line and compounded estimated growth rates, projected from actual fertilizer sales in years 1973 through 1976. Also included is the GOA's projections shown in its Seven Year Development Plan (March 1976-March 1983).

Total Fertilizer Sales on Metric Tons

Year	Actual Sales	Straight-Line Projection	Compounded Projection	GOA Seven-Year Plan Projection
1973/74	44,615			
1974/75	62,465			
1975/76	69,749			
1976/77	83,420			
1977/78		95,987	104,304	136,500
1978/79		108,356	127,241	171,870
1979/80		120,726	155,222	214,200
1980/81		133,097	189,356	257,250
1981/82		145,467	230,997	310,700
1982/83		157,837	281,795	368,100
1983/84		170,206	343,764	-
1984/85		182,576	419,360	-
1985/86		194,946	511,580	-

If only the most conservative projection (straight-line) is met over the next five years, incremental fertilizer sales would reach 62,047 metric tons which would require credit financing from ADB for 40,331 metric tons, valued at 405.3 million Afs (\$8.1 million). Without any changes in ADB operations and the development of agriculture in Afghanistan this growth projection will probably be realized. However the GOA coupled with the ADB and AFC are making a concerted effort to emphasize the benefits of fertilizer application to major crops. Additionally, USAID is developing a wheat production project which will, among other things, encourage farmers to utilize fertilizer and improved wheat seed to increase crop yields. If these actions are carried out in a timely and effective manner, fertilizer sales could approach and possibly exceed the compounded fertilizer demand shown in the above chart.

To meet the anticipated credit demand, ADB requires a substantial infusion of long-term funds. Presently, ADB's capital is fully committed to active loans and working capital varies from 150 million to 250 million Afs in cash and short-term assets which represents a sound liquidity base for the Bank. It would be imprudent for the ADB to consider committing short-term assets (demand deposits) to one year loan maturities. Capital funds and time deposits are the components which loans are effected. Since most of these funds are committed to agricultural loans the ADB needs additional capital to expand its lending operations. An institution has three basic sources of funds that provide capital for expansion--net profits, stock issuance and long-term debt. For ADB the latter method is the most practical and efficient solution, assuming that cost of capital and incremental operating costs are less than interest accrued from increasing the Bank's loan portfolio. Expansion through the Bank's retained earnings would provide only about 20 million Afs (\$400,000) per year and additional stock issuance must be financed by the GOA, since the ADB is government owned. Neither of these options are capable of providing quickly large amounts of funds for major expansion of the Bank's lending activities. Consequently, ADB must rely on debt financing from outside money markets if it intends to satisfy an increasing demand for agricultural input loans to small-scale farmers.

C. Financial Analysis and Plan

Project cost is \$5 million which would be all local cost reimbursement, unless AID agrees to advance \$1.5 million to ADB for on-lending to AFC to purchase DAP. Listed below are other donors' funds and ADB's contribution for short-term lending for fertilizer, pesticides and seeds. Pesticides, however, will not be eligible for AID financing under this project.

	<u>(\$000)</u>	<u>%</u>
AID (grant)	\$ 5,000	47
IBRD/IDA (loan)	1,756	17
CIDA (loan)	690	06
ADB	3,194	30
	<u>\$10,640</u>	<u>100</u>

Note: Rate of exchange used in this paper is Afs 50 equals \$1.00.

AID funds are earmarked for fertilizer and improved seed loans to small-scale farmers. Funds should be disbursed over a three year period. During the first year of the project AID will reimburse 47 percent and IDA/CIDA 23 percent of the incremental amount of short-term loans made by ADB to small-scale farmers for fertilizer and other agricultural inputs. This incremental amount will be determined on the total value of short-term agricultural input loans made by ADB in the year of August 1976 to September 1977. In succeeding years the incremental reimbursement in any one year will be the difference between the total amount of short-term loans executed in that year and the total amount made in the previous year.

AID will disburse funds to ADB upon official GOA/ADB requests accompanied by evidence that the amount claimed from AID has not been already claimed by ADB; that short-term loans were actually made to small-scale farmers; and that AID disbursements do not exceed 47 percent of the total disbursements of the project. The exception to the above procedures would be if AID decides to advance funds to ADB to on-lend to AFC for purchase of DAP fertilizer. In the event that this occurs, then AID would withhold disbursements until 47 percent of ADB's total incremental short-term loans equaled or exceeded the amount of AID's advance of funds.

D. Project's Impact on Institutions and the Economy

The combined resources of the donors would be Afs 250 million (\$5 million) from AID, IDA/CIDA funds of Afs 122.3 million (\$2.446 million) and ADB's contribution of Afs 159.7 million (\$3.194 million), totaling Afs 532 million (\$10.640 million) to be disbursed during the next three years. Assuming that 90 percent of these funds would be used to finance fertilizer to increase wheat production, then, Afs 478.8 million (\$9.6 million) would be available for 47,880 loans (average loan Afs 1,000 or \$200) to small-scale farmers to purchase an estimated 47,561 metric tons of fertilizer. Average retail cost of fertilizer is Afs 10,067 (\$201) per ton in Afghanistan.

Some possible implications of the project are: (1) an increase in ADB's fertilizer loan portfolio to about 105,000 loans which would require 210 fertilizer agents; (2) additional fertilizer distribution centers and staff for AFC; and (3) increased fertilizer usage, accompanied by other inputs, would increase agricultural production; but not to the extent that either large surplus materialize or crop prices decline.

In anticipation of an increasing demand for fertilizer, the ADB plans to increase gradually the fertilizer staff to 200 agents over the next few years. One fertilizer agent can service 500 farmers or about 70 fertilizer groups. There are usually between 5 to 10 farmers in a group. Presently, 101 fertilizer agents are handling approximately 57,000 fertilizer loans; an additional 65 fertilizer agents will be employed this year. Initially, this could increase ADB's operating cost and lower overall loan portfolio productivity.

Similarly, AFC intends to expand its operations in order to cope with an expected growth in fertilizer sales. Retail outlets will increase by 150, totaling 600 centers and distributing approximately 150,000 metric tons of fertilizer annually by 1981. AFC's working capital could be insufficient to purchase the volume of DAP fertilizer to match a rapidly expanding fertilizer credit campaign. Total project funds should be disbursed over three years and purchasing 47,561 tons of fertilizer. One year's fertilizer requirements are 15,854 tons, consisting of 5,300 tons of DAP fertilizer valued at approximately \$1.2 million. AFC should not reduce its current working capital to purchase DAP on the world market. Instead, AID should consider advancing \$1.5 million to ADB to on-lend to AFC for

purchasing DAP. This would ensure that adequate inventories of DAP are available for distribution to small farmers.

Demand for most agricultural produce is usually greater than supply. Thus, significant increases of a crop would neither create large crop surpluses nor adversely effect farmgate prices. For example, the wheat crop has historically received the majority of fertilizer sold to farmers.

It is expected that this trend will continue, since wheat is the most important crop, raised on over 60 percent of the cultivated area, accounting for 63 percent of annual cereal production and totaling nearly 40 percent of the nation's expenditure for food. Over the past ten years the demand for wheat has usually been greater than domestic production. Consequently imports are usually required, ranging from 10,000 metric tons in 1975/76 to a high of 226,868 metric tons in 1971/72. Only one year, 1974/75, did wheat production and Government inventories satisfy the demand for wheat.

Because of this continual shortage of wheat, the Government's Seven Year Development Plan proposes that total wheat production increase by 650,000 metric tons to 3.5 million metric tons, representing approximately 3.3 percent average annual growth or about 93,000 tons of wheat per annum. This wheat volume is necessary to meet a strong demand supported by population growth of 2.3 percent and per capita income growing at an average of 3.75 percent annually. Thus, the annual incremental wheat demand, after applying an income elasticity of demand for wheat of 0.5, is 4.2 percent. Obviously the aggregate demand for wheat is greater than the project could produce even if 90 percent of all the donors' resources are directed to this effort.

To illustrate, refer to the previous mentioned assumption that Afs 478.8 million (\$9.6 million) will generate 47,880 small-scale farmer loans to purchase 47,561 tons of fertilizer and improved seed for the nation's wheat crop over a three year period. Using a conservative input/output ratio of 1 to 4 $\frac{1}{2}$ (1 kg of fertilizer produces 4 extra kgs of wheat), incremental wheat production for the three years is 190,244 metric tons, or about 64,000 tons per annum. Therefore, it is extremely doubtful that substantial increases in fertilizer usage will produce an incremental volume of wheat, or any other crop, which would create crop surpluses and depress crop prices.

1/ Note, that the 1 to 4 input/output ratio was derived after referring to other studies and experimenting with different fertilizer models. Irrigated wheat with an average seeding rate of 150 kg per hectare produces 1.5 to 1.8 tons per hectare under traditional farming methods. When improved seed and fertilizer is utilized, incremental yields have reached over 4.5 tons per hectare. During a recent visit to Afghanistan, farmers in the Kunduz area (northern Afghanistan) were asked if fertilizer and improved seed increased wheat production on their farms. They indicated that their wheat yields more than doubled from approximately 50 seers per jerib without fertilizer to about 130 seers per jerib with fertilizer. They applied the recommended mix of one part DAP and two parts urea to the wheat crop. The Government's input/output ratios for wheat production yields shown in the Seven Year Development Plan range from 4.2-1 to 5.1-1. These returns are expected when using 179 to 231 kgs of fertilizer per hectare, compared to the more dependable and recommended standard of 375 kgs of fertilizer which is used to develop the input/output ratio shown in the project paper. Therefore, the 1 to 4 ratio is considered conservative.

E. Financial and Economic Analyses

The beneficiaries of AID's financial assistance are approximately 25,000 farmers and their family members totaling about 150,000 persons. Target group farmers own small plots of land averaging 10.7 jeribs (2 hectares) and earning an annual average gross income of \$420 or approximately \$60 per capita. Through AID's proposed project, this group's average gross income should double and after expenses have an operating income of \$120 in the first year of the project, increasing to \$130 in the second year and thereafter continuing at \$140 per annum. Before the proposed project, operating income averaged \$10 per annum. Net financial returns to the incremental investment are 35 percent and 40 percent in the first and second years respectively, followed by 45 percent throughout the next eight years of the project. Incremental income should grow to \$110 in year one, increasing to \$120 and \$130 in the following two years. After borrowing \$200 in the first year and \$100 in year two, each farmer should have adequate working capital to purchase future supplies of fertilizer and improved seeds without further financial assistance from ADB. Additionally, farmer's aggregate working capital should increase sufficiently after the second year to increase their marginal consumption of food and other goods from the cash sector of the economy. See Annexes R and S for Small-Scale Farmer's Projected Source and Use of Funds Statement and Pro Forma Income Statement.

These substantial gains in operating and incremental income are not unusual when employing modern agricultural inputs to areas which historically have utilized traditional farming practices. Opportunities for impressive gains in yields and incomes are, however, shared with elements of risk. Because of uncertainties such as possible shortage of water, lack of labor and crop price fluctuations, farmers must be offered higher than average financial returns before they are willing to participate in an investment that could result in a farmer being worse off than before engaging in the investment. By nature, traditional farmers avoid risky and uncertain conditions. Both farmer and Government have acted positively to eliminate, to a degree, some of the uncertainty in utilizing modern agricultural inputs. The Afghan farmer usually applies fertilizer to crops planted on irrigable land that has received adequate water in all but the most severe drought years. Farm laborers have been supplemented by oxen for much of the land preparation and thrashing of wheat, thereby reducing the probability that farm workers will not be

available. Government maintains a support price for wheat although it has not always operated efficiently. However, British/UNDP consultants are exploring possible approaches that Government could take to develop an effective wheat price stabilization fund. These actions by farmer and Government have removed some of the uncertainty experienced by farmers whenever they borrow money to purchase fertilizer and improved seeds for raising crops.

Extra agricultural inputs cost \$290 per annum and produce 3.0 incremental tons of wheat (2 hectare farm) valued at \$420. Wheat is priced conservatively at Afs 50/seer (\$1/7.07 kgs) or \$140/metric ton which is an average farmgate price paid to farmers. The previously mentioned consultants, who are preparing a wheat price stabilization policy for the Government, will probably recommend between Afs 50 and Afs 55/seer (\$1 to 1.10 per 7.07 kgs) as a support price for wheat.

The factors which contribute substantially to increasing wheat production are: 15 extra hours of oxen hire computed at \$2/day, for \$30; family labor associated with harvesting is increased at a cost of \$70; 375 kgs/hectare of fertilizer are utilized at \$0.20 per kg, indicating a cost of \$150 for two hectares of land; and for all years improved wheat seed (\$40) is required with ASC supplying seed in years 1, 5, 9 but in other years it is supplied from the farmer's preceeding harvest.

Total economic returns are computed from the above data. Possible benefits occurring from double-cropping farmland after the wheat harvest are excluded from this analysis. The economic internal rate of return to the economy is 45 percent for a project life of ten years. Two sensitivity analyses were conducted to test this return; (1) if the farmgate price for wheat decreased by 10 percent to Afs 45/seer (\$0.90/7.07 kgs or \$127/ton) and (2) if the price of fertilizer increased by 20 percent to \$241 per metric ton. If the former occurred the economic IRR would be 20 percent and 31 percent if the latter event occurred. In all cases the economic IRR is greater than 14 percent, the estimated opportunity cost of capital in Afghanistan.

In addition to computing an economic IRR, the following net present value (NPV) analysis is presented. The NPV of the \$5 million AID investment, discounted at 14 percent, is \$1.950 million. Since the NPV is above zero the project offers a rate of return greater than 14 percent. The NPV method presents a

more realistic indication of an appropriate and feasible rate of reinvestment for cash flow resulting from the project. The selected reinvestment rate (discount rate) represents the average return on investment opportunities available to ADB.

The IRR method implies that funds are reinvested at the IRR over the remaining life of the project, i.e. cash flows can be reinvested at a rate equivalent to the required rate of return used as the discount rate. Because of these differing assumptions, the two methods can, and do, give different rankings of investment projects.

VIII. Project Implementation

A. Implementation Schedule and Monitoring of Project

The project agreement should be signed in August 1977. The IBRD and the UNDP-financed consultant team at the ADB will continue to be the implementing agents for the total project. ADB financial and annual reports as well as the IBRD's evaluation reports will be available to AID. Since the IBRD's involvement with the ADB covers several years of developing and implementing this activity it seems reasonable to depend on the IBRD to continue monitoring the project. Naturally, AID officials will have access to GOA and ADB personnel along with receiving normal reporting documentation from the ADB. AID will request ADB to provide annual reports which indicate the number of small-scale farmers receiving fertilizer loans, the value of the loans and the number of jeribs (hectares) under cultivation for each farmer. AID will assume the main responsibility for implementing and monitoring the \$5 million grant for small-scale farmer loans for the purchase of fertilizer and improved seeds.

B. Evaluation Plan

In order to carry out an effective evaluation, a review and appraisal should be made of the available ADB and Government data pertaining to the practices of traditional farmers. From this information comparisons could be made to measure the extent to which the small-scale farmer increases food production and realizes gains in his annual income through the use of agricultural inputs. It is recommended that an evaluation team to visit Afghanistan in the near future to develop base-line data which could be used to compare changes and improvements in farming practices of small-scale farmers and their families. At the end of the second year AID will conduct a detailed evaluation to ascertain the benefits occurring to the small-scale farmer and determine if the project should be continued.

C. Conditions and Covenants:

In addition to standard conditions precedent normally placed in grant agreements, AID should require an agreement between the ADB and GOA, which explains the terms and conditions of the GOA's on-lending arrangements of these funds to ADB.

PARTIAL TRANSCRIPTION - ORIGINAL FOLLOWS

[first column]

1. AFTER REVIEW OF THE NE ADVISORY COMMITTEE ON MAY 5, PRP WAS APPROVED BUT FOLLOWING ISSUES WERE RAISED AND SHOULD BE EXPLORED DURING [ILLEG] AND [2 WORDS ILLEG] AND DISCUSSED IN [ILLEG].

2. QUESTION: RELATING TO AG BANK.

A. FINANCIAL QUESTIONS. REVIEW MATURITY OF LOANS EXTENDED FOR AG [ILLEG] UNDER THAT [ILLEG] AND AID AGREE THAT SUCH LOANS SHOULD NOT EXCEED 13 MONTHS; REVIEW INTEREST RATE AND ASCERTAIN WHETHER RATE USED COVERS AG BANK ADMINISTRATIVE COSTS AND COST OF MONEY; IF LATTER NOT THE CASE WHAT IS SOURCE OF SUBSIDY? WHAT IS PRESENT [ILLEG] POSITION? HOW IS IT EXPECTED TO CHANGE DURING NEXT FIVE YEARS? DETAIN LATEST FINANCIAL STATEMENTS AND PROMOTIONS OF AG BANK'S CURRENT FISCAL YEAR. DOES CURRENT POSITION INDICATE NEED FOR ADDITIONAL EQUITY? DOES AG BANK HAVE RESERVE FOR END DEBTS? IF SO, WHAT IS BANK'S POLICY ON INFLUENCING RESERVE, AND [ILLEG] USING RESERVE BEFORE CALLING ON DOA COMPANY?

B. MANAGEMENT AND ADMINISTRATION ASCERTAIN NUMBER OF EXISTING BRANCH OFFICES. THEIR STAFFING AND PLANS FOR EXPANSION. DETAIN VIEWS FROM DIFFERENT SOURCES ON FIELD MANAGEMENT ON CURRENT OPERATION AND ANY SUGGESTIONS FOR IMPROVEMENT. ASSESS CURRENT MANAGEMENT ORGANIZATION TRAINING PROGRAMS, INTERNAL DELEGATIONS OF AUTHORITY, ETC. AND FUNCTIONS AND OPERATING METHODS OF ADVISORY TEAM.

3. FERTILIZER SUBSIDIES. ASCERTAIN AMOUNT [ILLEG] OR BAGS OF SUBSIDIES PAID ON UPEA AND DAR RESPECTIVELY, AND TOTAL AMOUNT PAID IN LAST FISCAL YEAR REPORTED. ASCERTAIN PLANS FOR CHANGES IN SUBSIDY STRUCTURE. EXPLORE WHO WOULD BENEFIT FROM ANY DECREASE IN ARREARS. AG BANK, [2 WORDS ILLEG] AND WHETHER LOWER RATE FOR [ILLEG] TOTAL PRESENCE OF SUBSIDY ON [ILLEG] WOULD BE USED TO FINANCE (IN PART OR TOTALLY) HIGHER SUBSIDY FOR DAP. DESCRIBE IN DETAIL HOW SUBSIDIES ARE PAID.

4. AFC. ASCERTAIN NUMBER AND DISTRIBUTION OF AFC FILED OFFICES. THEIR STAFFING AND OPERATIONS, QUANTITIES OF FERTILIZER DISTRIBUTED; EXTENT ARE QUALITY OF EXTENSION SERVICES PROVIDED BY AFC. ASCERTAIN CURRENT FINANCIAL POSITION OF AFC AND REVIEW ITS ORGANIZATION AND MANAGEMENT.

PARTIAL TRANSCRIPTION - ORIGINAL FOLLOWS

[FIRST COLUMN]

11. MARKETING. ASK QUESTIONS RELATING TO MARKETING OF INCREASED FARM OUTPUT DEMAND, PRICES, INSTITUTIONAL AND TRANSPORT [ILLEG] SHOULD BE EXPLORED TO DETERMINE EXTENT TO WHICH INCENTIVES EXIST FOR SMALL FARMERS TO INCREASE PRODUCTION.

12. ECONOMIC ANALYSIS SHOULD BE CARRIED OUT BOTH FOR OVERALL EFFECT OF CREDIT PROGRAM ON VOLUME AND PRICE OF AG PRODUCTS LIKELY TO BE GROWN ON SMALL FARMS AND FOR EFFECT ON FARMERS' NET BENEFITS FROM INCREASED PRODUCTION.

13. IMPLEMENTATION PROCEDURES. AG CREDIT TEAM AND USAID SHOULD EXPLORE IN DEPTH WITH GOA IMPLEMENTATION PROCEDURES TO INCLUDE METHOD OF DISBURSEMENTS BY A.I.D. TO GRANTEE. TIMING, MONITORING, EVALUATION, NEED FOR ANY SIDE LETTERS OR COVENANTS, ETC. FURTHER TO PARAGRAPH 2A ABOVE YOU SHOULD ALSO DISCUSS WITH GOA AND AG BANK THE QUESTION OF WHETHER GOA WILL PASS PROCEEDS OF AID GRANT TO AG BANK IN FORM OF EQUITY CONTRIBUTION OR AS LOAN TO BE REPAYED (IF LATTER WHAT TERMS AND CONDITIONS DOES GOA PROPOSE TO PLACE ON LOAN?). PLEASE TAKE CARE, HOWEVER, NOT REPEAT NOT TO COMMIT AID TO ACCEPTING THE TERMS AND CONDITIONS THAT GOA PROPOSES.

14. DEPUTY MINISTER OF PLANNING FAROGH MAY RAISE WITH CREDIT TEAM AND USAID POSSIBILITY OF OBTAINING DOLLARS 5 MILLION GRANT AS LUMP SUM TO FINANCE FERTILIZER IMPORTS. AID OPPOSED TO IDEA FOR REASONS DISCUSSED IN PREVIOUS CABLE REPORTING ON FAROGH VISIT. CHRISTOPHER.

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TELEGRAM

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11. MARKETING. ANY DISCUSSION REGARDING TO MARKETING OF INCREASED FARM OUTPUT, TERMS, PRICES, INSTITUTIONAL AND TRAINING MINISTRIES SHOULD BE EMPLOYED TO DETERMINE EXIST TO WHICH INCENTIVES EXIST FOR SMALL FARMERS TO INCREASE PRODUCTION.

12. ECONOMIC ANALYSIS SHOULD BE CARRIED OUT BOTH FOR OVERALL EFFECT OF CREDIT PROGRAM ON VOLUME AND PRICE OF AG PRODUCTS, ESPECIALLY TO BE ECONOMY ON SMALL FARMS AND FOR EFFECT ON FARMERS' NET BENEFITS FROM INCREASED PRODUCTION.

13. IMPLEMENTATION PROCEDURES: AG CREDIT TEAM AND USAID SHOULD EXPLORE IN DEPTH WITH GOA IMPLEMENTATION PROCEDURES TO INCLUDE METHOD OF DISBURSEMENTS BY A.L.B. TO GRANTEE, T.M.N.C. MONITORING, EVALUATION, NEED FOR ANY SIDE LETTERS OR COVENANTS, ETC. FURTHER TO PARAGRAPH 12 ABOVE YOU SHOULD ALSO DISCUSS WITH GOA AND AG BANK THE QUESTION OF WHETHER GOA WILL PASS PROCEEDS OF AID GRANT TO AG BANK IN FORM OF LOAN OR CONTRIBUTION OF AS LOAN TO BE REPAYED (IF IN FORM OF LOAN) AND CONDITIONS GOES GOA POSSIBLE TO PLACE ON LOAN. PLEASE TAKE CARE, HOWEVER, NOT REPEAT NOT TO COMMIT A.L.B. TO ACCEPTING THE TERMS AND CONDITIONS THAT GOA PROPOSES.

14. DEPUTY MINISTERS OF PLANNING PAROCH MAY RAISE WITH CREDIT TEAM AND AID POSSIBILITY OF OBTAINING DOLLARS 5 M. IN GRANT AS LUMP SUM TO FINANCE FERTILIZER IMPORTS, AND IN OFFERED TO IDEA FOR REASONS DISCUSSED IN PREVIOUS CALL RELATING TO PAROCH VISIT. CAPTIVE/CHER

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PARTIAL TRANSCRIPTION - ORIGINAL FOLLOWS

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?
2. FAA Sec. 604(a) Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him?
3. FAA Sec. 604(d) If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the U.S. on commodities financed?
4. FAA Sec. 604(e) If offshore procurement on agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?
5. FAA Sec. 608(a) Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?
6. FAA Sec. 901(a) (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liner, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the facilities of other federal agencies will be utilized,

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Grant Project - 306-106

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6C(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by exclusion (as where certain uses of funds are permitted, but other uses not).

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A Procurement

1. FAR Sec. 502. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?

Small business will participate in accordance with AID regulations and procedures.

2. FAR Sec. 504(a). Will all commodity procurement financed in part by the U.S. Government be otherwise approved by the President or under delegation from him?

Yes.

3. FAR Sec. 505(a). If the contracting country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the U.S. on commodities financed?

The project agreement will so provide.

4. FAR Sec. 505(c). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?

Not applicable. No such procurement is to be financed.

5. FAR Sec. 507(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?

Yes. However, few if any instances of excess property utilization are anticipated.

6. FAR Sec. 507(c). (a) Facilities with equipment that is surplus to the optimum of the grant program or operations (equipment separately, machinery, equipment, and tools) financed shall be transferred on privately owned U.S. surplus property inventory to the extent that such surplus is available at fair and reasonable prices.

The project agreement will so provide.

7. FAR Sec. 601. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as experts and professional and other services from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized,

No technical assistance is to be furnished.

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PARTIAL TRANSCRIPTION - ORIGINAL FOLLOWS

are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

B. International Air Transport. Fair Competitive Practices Act, 1974.

If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

B. Construction

1. FAA Sec. 601(d) If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest?

2. FAA Sec. 611(c) If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

3. FAA Sec. 620(k) If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million?

C. Other Restrictions

1. FAA Sec. 301(c) If development loan, as interest rate at least 2 per annum during grace period and at least 3% per annum thereafter?

2. FAA Sec. 301(d) If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

3. FAA Sec. [illeg] Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrarily to the best interests of the U.S.?

4. FAA Sec. 636(a) Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the U.S. or guaranty of such transaction?

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are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport, Fair Competitive Practices Act, 1974

If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

The project agreement will so provide.

B. Construction

1. FAR 101-60.1(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest?

Not applicable.

2. FAR 101-60.1(e). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

Not applicable.

3. FAR 101-60.1(f). If for construction of productive infrastructure, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million?

Not applicable.

C. Other Restrictions

1. FAR 101-60.1(g). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

Not applicable, as this is a grant.

2. FAR 101-60.1(h). If AID is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

Not applicable.

3. FAR 101-60.1(i). If an assistance project is to be financed, will the project be subject to the national interest of the U.S.?

Yes.

4. FAR 101-60.1(j). Is the end use permitted to be used, without award, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the U.S. or guaranty of such transaction?

Yes.

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PARTIAL TRANSCRIPTION - ORIGINAL FOLLOWS

e. App. Sec. 103. to pay pensions, etc., for military personnel?

f. App. Sec. 106. to pay U.N. assessments?

g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organizations for lending).

h. App. Sec. 501. to be used for publicity or propaganda purposes within U.S. not authorized by Congress?

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5. Will arrangements preclude use of financing?

a. FAA Sec. 114, to pay for performance of abortions or to motivate or coerce persons to practice abortions?

Yes.

b. FAA Sec. 620(e), to compensate owners for expropriated nationalized property?

Yes.

c. FAA Sec. 600, to finance police training or other law enforcement assistance, except for narcotics programs?

Yes.

d. FAA Sec. 662, for CIA activities?

Yes.

e. FAA Sec. 113, to pay pensions, etc., for military personnel?

Yes.

f. FAA Sec. 168, to pay U.N. assessments?

Yes.

g. FAA Sec. 256, to carry out provisions of FAA Sections 205(d) and 651(h)? (transfer to multilateral organization for lending).

Yes.

h. FAA Sec. 161, to be used for political or propaganda purposes within U.S. not authorized by Congress?

Yes.

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f. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

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- (5) [10?] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

c. FFA Sec. 110(a), Sec. 203(n). Is the recipient country willing to contribute funds to the project, and in what manner has or will it provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

d. FFA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing?

e. FFA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained manpower in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws, or (6) integrating women into the recipient country's national economy.

f. FFA Sec. 211(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country utilizing the country's intellectual resources to encourage and stimulate development; and such relevant education and training in skills required for effective participation in governmental and political processes essential to self-government.

The country is so willing and assurances will be provided in the project agreement.

Not applicable. Not a capital project.

The assistance is intended to help meet Afghanistan's food needs by providing the small farmer with the necessary credit to increase production.

The project recognizes that the small farmer is desirous and capable of increased production and that for the small farmer to participate in the agricultural sector, agricultural inputs such as credit must be made available to meet demand.

h. FAA Sec. 201(b)(6); Sec. 211(a)(5). (6).

Information and conclusion on possible effects of the assistance on U.S. economy, with special preference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

2. Development Assistance Project Criteria (Loans only)

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within U.S.

b. FAA Sec 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 201(f). Does project paper describe how project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development?

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g. FFA Sec. 201(a)(2)-(4) and -(8); Sec. 201(a); Sec. 211(a)(1)-(3) and -(6). Does the activity give reasonable promise of contributing to the development: of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? And does project paper provide information and conclusion on an activity's economic and technical soundness?

h. FFA Sec. 201(a)(4); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

2. Development Assistance Project Criteria (Aid Only)

a. FFA Sec. 201(a)(1). Information and conclusion on availability of financing from other than U.S. sources, including private sources within U.S.

b. FFA Sec. 201(a)(2), (4), (d). Information and conclusion on the capacity of the country to repay the loan, including its problems of foreign arrears, and its reasonable and realistic budget and laws of country and its of foreign and lending bank of the loan.

c. FFA Sec. 201(a)(3). Information and conclusion on the amount of the loan, and the U.S. government's commitment to AID and the U.S. government's ability to provide the assistance to administer that funds will be used in an economical and technically sound manner.

d. FFA Sec. 201(e). Does project paper describe how project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development?

Small farmers who have been able to obtain credit have increased their agricultural productivity and, in some cases, produced and sold surpluses. The project would contribute to the development of the agricultural sector which is a primary economic development objective of Afghanistan and it closely complements other agricultural credit assistance underway in Afghanistan. The project paper contains economic and technical analyses.

Little if any adverse effects on U.S. economy or balance of payments is anticipated.

Items a,b,c,d,e, and f are not applicable since this is a grant.

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3. Project Criteria Solely for Security Supporting Assistance

FAA Sec. 531. How will this assistance support promote economic or political stability?

4. Additional Criteria for Alliance for Progress

[Note: Alliance for Progress projects should add the following two items to a project checklist.]

a. FAA Sec. 251(b)(1) - (8). Does assistance take into account principles of the Act of Bogota and the Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) on its annual review of national development activities?

e. FEA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?

f. FEA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

3. Project Criteria Strictly for Security Assistance

FEA Sec. 531. How will this assistance support promote economic or political stability?

Not applicable. Not a SSA project.

4. Additional Criteria for Alliance for Progress

[Note: Alliance for Progress projects should add the following two items to a project checklist.]

Not applicable. Not an AFP project.

a. FEA Sec. 251(b)(1), (c). Does assistance take into account principles of the Act of Congress and the Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FEA Sec. 251(b)(2), (d)(i). For loans, has there been taken into account the effort made by recipient nation to eliminate capital invested in other countries by their governments? Is loan consistent with the findings and recommendations of the Inter-American Commission for the Alliance for Progress (now "OAS") the Inter-American Development Commission or the OAS in its annual review of national development activities?

PARTIAL TRANSCRIPTION - ORIGINAL FOLLOWS

GENERAL CRITERIA FOR PROJECT

1. App. Unnumbered; FAA Sec. 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project;
(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure plus 10%)?

2. FAA Sec 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

4. FAA Sec 611(b); App [illeg] 101. If for water or water-related land resource construction, has project met the standards and criteria as per Memorandum of the President dated Sept 5, 1973 (replaces Memorandum of May 15, 1962; See Fed Register, Vol 32, No. 174, Part III, Sept. 10, 1973)?

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

AFGHANISTAN - AGRICULTURAL CREDIT GRANT PROJECT - 306-016

ANNEX B

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5C(2) - PROJECT CHECKLIST

Listed below are, first, statutory criteria applicable generally to projects with FAA funds, and then project criteria applicable to individual fund sources: Development Assistance (with a sub-category for criteria applicable only to loans); and Security Supporting Assistance funds.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT? Country Checklist prepared in conjunction with PP on Central Helmand Drainage is up to date.

GENERAL CRITERIA FOR PROJECT.1. App. Unnumbered; FAA Sec. 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project;
(b) Is assistance within (1) national Year Budget; country or international organization allocation reported to Congress for not more than \$1 million over that figure plus 10%?

(a) Notification will be provided in accordance with AID procedures.

(b) Yes.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a) Yes.

(b) Yes.

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative action is required.

4. FAA Sec. 611(a)(3). If for a project involving more than \$1 million the country is a recipient of the Standard International Project, 1962, or the Standard Project, 1974, Part III, Sept. 10, 1973?

Not applicable.

5. FAA Sec. 611(a). Is project capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

Not applicable.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(c); Sec 11; Sec. 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions?

4.

ANNEX B
Page 8

6. FAA Sec. 209, 619. Is project susceptible of execution as part of regional or multi-lateral project? If so why is project not so executed? Information and conclusion: whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multi-lateral organizations or plans to the maximum extent appropriate?

7. FAA Sec. 801(a), (and Sec. 801(f) for
developing nations). Information and
conclusions whether project will encourage
efforts of the country to: (a) increase
the flow of international trade; (b) foster
private initiative and competition;
(c) encourage development and use of
cooperatives, credit unions, and savings
and loan associations; (d) discourage
monopolistic practices; (e) improve
technical efficiency of industry, agri-
culture and commerce; and (f) strengthen
free labor unions.

8. FAR Sec. 601(a). Information and consultation on new projects will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

9. FPA Sec. 602(h); Sec. 606(a). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

10. FAA Sec. 512(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?

8. FUNDING OF THE PROJECT

- 1.
- Developing
- Anti
- Resistance
- report
- criteria

active involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions?

Project is being carried out in conjunction with Government of Canada and International Development Bank Agricultural Credit projects. Afghanistan is not a newly independent country.

By supplying credit for agricultural inputs and equipment to the small farmer, the project will foster private initiative in the agricultural sector, strengthen the small farmer, thereby discouraging monopolistic practices and improve the technical efficiency of agriculture.

By increasing supply of credit, project will provide small farmers greater accessibility to equipment and technology, including that offered by U.S. private enterprise.

The project agreement will so provide.

Afghanistan is not an excess currency country.

The project is aimed directly at increasing local availability of credit for the small farmer. The credit will be used to finance agricultural inputs and equipment for the small farmer thereby increasing labor-intensive production and the spreading of investment to the rural areas.

PARTIAL TRANSCRIPTION - ORIGINAL FOLLOWS

b. FAA Sec. 102, 103, 104, 105, 106, 107 . Is assistance being made available: [include only applicable paragraph -- e.g. a, b, etc. -- which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.]

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor;

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4)[106] for technical assistance, energy, research, reconstruction, and selected development problems; is so, extent activity is:

(a) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(b) to help alleviate energy problems;

(c) research into, and evaluation of, economic development processes and techniques;

(d) reconstruction after natural or manmade disaster;

(e) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(f) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

b. FAS 501, 102, 103, 104, 105, 106, 107, is assistance being made available; include only applicable paragraph -- c. 201, b, c, etc. -- which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.]

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

The project is specifically aimed at increasing the supply of credit available to the small farmer.

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor;

(3) [105] for education, public administration, or health resources development; if so, extent to which activity stimulates nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(a) technical consultation and development, especially with U.S. private or voluntary, or regional and international development organizations;

(b) to help alleviate energy problem;

(c) to advance planning and distribution of, technical development processes and technical;

(d) reconstruction after natural or man-made disaster;

(e) for special development problem, and to enable proper utilization of existing U.S. infrastructure, etc., assistance;

(f) for promoting of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

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IBRD's and CIDA's Project Description for Assistance to the ADB

The proposed project would support ADB's lending program over the three year period from October 1977 through September 1980. It would finance technical assistance to ADB and a fertilizer study, and comprise seven other components as follows:

- (1) Farm mechanization. Financing would be provided for approximately 610 twenty-five hp and forty-five hp tractors, with most of the larger tractors intended for farmer groups. In addition the project would finance about 85 tractors which are part of a lot of 300 tractors being procured through international competitive bidding under the Second Agricultural Credit Project, but for which insufficient funds are available under the Second Project. Retroactive financing for these expenditures up to an amount of US\$600,000 is recommended to enable AgBank to take advantage of bulk purchase prices and maintain continuity in its lending program. A considerable number of small farm equipment and implements would also be financed.
- (2) Irrigation wells. This comprises pumping equipment for and drilling of up to 20 deep wells and about 480 pumps for shallow wells, all for the irrigation of groups of farms.
- (3) On-farm development. A wide range of activities would be financed, such as the establishment or improvement of vineyards, orchards, poultry and crop cultivation, with investments in land preparation, planting materials, oxen, farm buildings and minor equipment. Most loans are expected to be between Afs 50,000 and Afs 70,000 (US\$1,000-1,400) for small and medium sized holdings.
- (4) Land settlement. As a pioneering venture by AgBank, financing is envisaged of the investment and current input needs of settlers in Government settlement schemes in areas such as Helmand, Nangarhar and Parwan. Infrastructure, housing and initial living costs would be provided or arranged for by the Government. About 4,000 settlers would benefit from loans averaging Afs 32,000 (US\$640).
- (5) Fertilizer. This would be a continuation of the on-going lending program for fertilizer, improved seeds and other inputs. The project would finance incremental annual disbursements by ADB. A large number of small holders with three to four ha of irrigated land are expected to benefit from loans averaging Afs 10,000 (US\$200).

(6) Produce marketing and processing. Short term loans would be made to finance produce marketing by cooperatives to enhance members' bargaining power, and to processing firms or cooperatives for purchase of produce from small farmers at equitable prices.

(7) ADB supporting services. The project would finance staff field allowances, foreign fellowships, transport vehicles and mobile workshops for AMSCO.

Technical assistance. 1/ ADB would receive technical assistance from a suitable firm of consultants providing three qualified experts and other services, selected on terms and conditions agreed with IDA, as follows:

- (1) Two experts specializing in management/banking and credit operations to assist in institutional improvement, to continue the process of strengthening of management and operations. The former would be in a management position with ADB.
- (2) One financial expert, and short term consultancies totalling about 12 man-months, to strengthen financial management.

The three-man team would be employed for two years beyond the term of the present consultancy, i.e. from September 1978 to August 1980. The average cost of the consulting services is estimated at US\$5,000 per man-month including contingencies.

Fertilizer study. The fertilizer program has evolved into a multi-faceted endeavor involving the Ministries of Agriculture and Planning, AFC, the Government owned urea plant and ADB. To help in understanding the long term problems and taking remedial measures, a study would be undertaken by the Government, with the assistance of specialized consultants, under agreed terms of reference to include long term demand for and supply of fertilizer, suitable fertilizer usage, economics of local production, pricing policies including relationship to agricultural production pricing, economics of procurement, storage and distribution, resource needs and Government subsidies, the role and delivery of agricultural extension services, costs and risks of fertilizer credit, and a suitable framework for ADB to assume increasing financial responsibility for fertilizer loans. The project would finance the costs of the study, including an estimated 48 man-months of consultants' services.

1/ The Government has indicated its intention to request UNDP funds for technical assistance. If such financing is approved, as is likely, the funds provided for technical assistance under this project would be reallocated to other components.

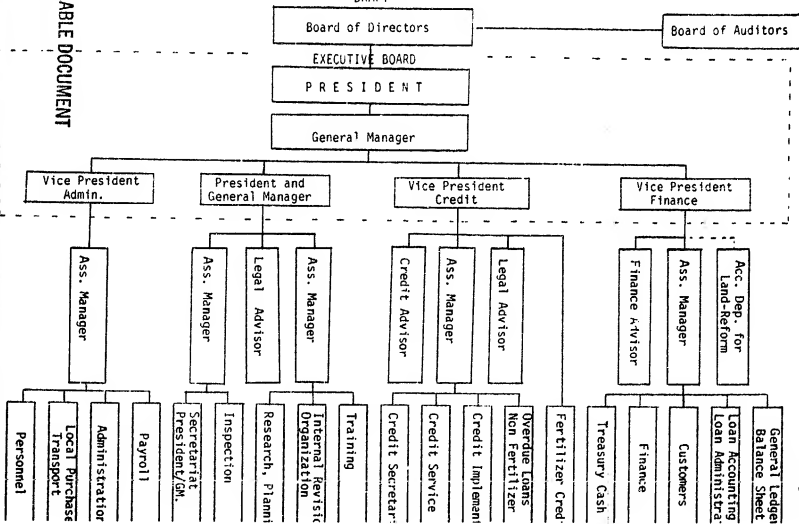
Project cost estimates are based on recent ADB experience, on June/September 1976 prices of the respective investment items with suitable price and physical contingencies, and on representative models of production units examined during appraisal. Total project cost is estimated at Afs 1,574 million or US\$31.5 million equivalent, of which 43% or Afs 674 million (US\$13.5 million) would be in foreign exchange. Cost estimates are summarized below.

ANNEX C
Page 4

Investment Item	Project Cost -----Afs Million-----			-----US\$ '000-----			% Foreign Exchange Component
	Local	Foreign	Total	Local	Foreign	Total	
I. <u>Farm Mechanization & Implements:</u>							
a. Tractors	75.0	225.1	300.1	1,500	4,502	6,002	75
b. Small equipment & implements	10.3	30.9	41.2	206	618	824	75
II. <u>Irrigation Wells:</u>							
a. Shallow well pumps	34.9	48.1	83.0	698	962	1,660	58
b. Deep wells	10.7	20.0	30.7	214	400	614	65
III. <u>On-Farm Development</u>	107.2	5.6	112.8	2,144	112	2,256	5
IV. <u>Land Settlement</u>	121.6	6.4	128.0	2,432	128	2,560	5
V. <u>Short-Term Lending for fertilizer, seeds & other inputs</u>	308.7	205.8	514.5	6,174	4,116	10,290	40
VI. <u>Short-Term Lending:</u>							
a. To coops for marketing & processing	61.0	-	61.0	1,220	-	1,220	0
b. To firms for processing	72.0	-	72.0	1,440	-	1,440	0
VII. <u>Technical Assistance</u>	4.9	11.3	16.2	98	226	324	70
VIII. <u>Supporting Services:</u>							
a. Field allowances	2.0	-	2.0	40	-	40	0
b. Fellowships	-	1.9	1.9	-	38	38	100
c. Vehicles, office equipment and mobile workshops	-	26.7	26.7	-	534	534	100
IX. <u>Fertilizer Study</u>	<u>3.1</u>	<u>9.4</u>	<u>12.5</u>	<u>62</u>	<u>188</u>	<u>250</u>	<u>75</u>
Base Cost	811.4	591.2	1,402.6	16,228	11,824	28,052	42
<u>Contingency Allowances:</u>							
a. Physical 1/	1.1	1.6	2.7	22	32	54	59
b. Price 2/	<u>87.6</u>	<u>80.8</u>	<u>168.4</u>	<u>1,752</u>	<u>1,616</u>	<u>3,368</u>	<u>48</u>
Total Project Costs	<u>900.1</u>	<u>673.6</u>	<u>1,573.7</u>	<u>18,002</u>	<u>13,472</u>	<u>31,474</u>	<u>43</u>

- 1/ Only for elements of irrigation wells, at 5% each for drilling and pump house for deep wells and excavation for shallow wells.
- 2/ For calculation of price contingencies during 1977-81, the following annual inflation rates were applied: imported equipment 7.5%, local items 5%, (the local rate of inflation) civil works for deep wells 9%, fertilizer 5% only for 1978/79 (Government controls price) and technical assistance 7.5%.

AGRICULTURAL DEVELOPMENT BANK OF AFGHANISTAN
INTERNAL ORGANIZATION CHART
HEADQUARTERS
-DRAFT-



6.

AGRICULTURAL DEVELOPMENT BANK
OF
AFGHANISTAN

HEAD QUARTER

DRAFT
ORGANIZATION CHART
AGBANK, BRANCH TYPE 1

BRANCH MANAGER

AMSCO BRANCH

LEGAL ADVISOR

DEPUTY BRANCH MANAGER

CASH

ACCOUNTING

PERSONNEL
ADMINISTRATION

FERTILIZER CREDIT
DISTR. COLLECT.
SUPERVISION

CREDIT IMPLEMENTATION

FIELD SERVICE
CREDIT SERVICE

SECTIONS

AGRICULTURAL DEVELOPMENT BANK
OF
AFGHANISTAN

HEAD QUARTER

BRANCH MANAGER

AMSCO BRANCH

DEPUTY BRANCH MANAGER

FIELD SERVICE

PERSONNEL
ADMINISTRATION

FERTILIZER CREDIT
DISTRIBUTION COLLECTION
SUPERVISION

ACCOUNTING

CASH

SECTIONS

DRAFT
ORGANIZATION CHART
AGBANK, BRANCH TYPE 2

Serial No. 15823

AGRICULTURAL DEVELOPMENT BANK OF AFGHANISTAN

Page From .age

Date of Preparation // 1350 Short term Loan Contract form for Fertilizer and Wheat seed

Date of maturity Month- 1950

Village Code No. Alaqadari Woliswali Province

We group of the farmers from village Alaqadari Woliswali Province with the Full

Understanding and accepting the conditions of the short-term loan for fertilizer and wheat seed in the order of agreement between us and the Agricultural Development Bank insert our fertilizer need with the necessary information required by the bank in respect to the approval of the loan as follows.

ed by the bank in respect to the approval of the loan as follows.																												
Taskara No.																												
Address						Special			Tax Receipt No. and Date		Land Size for Fertili- zer		Urea		DAP		wheat		Total Loan in Afghani		Finger Print for Application		Finger Print for receipt of commod- ities					
No.	Name	Father	Province	Woliswali	Volume No.	Page No.	Name	Date																				
011																												
020																												
038																												
046																												
054																												
062																												
070																												
089																												
097																												
100																												
TOTAL																												

We group of the farmers by putting our finger prints or signature against our names receipt the commodities accepted the conditions and understood the value of this loan form and we are jointly and individually responsible for the repayment of the debt.

I The AgBank representative in respect to the manual instructions filled this contract form

Signature

I Sen of Malik of Village Taskara volume No. Page Special No. Confirm the address and fertilizer need of the above group members by putting my finger print and signature

Thumb print Signature

I The extension agent confirm the land ownership of the above farmers

Signature

I The land office representative confirm the land ownership of the above group members based on the legal documents in the land office

Signature

I Confirm the identity and address of the malik and the land office representative. Su Subgovernor or its representative name

Signature

Date: May 19, 1977/Paisy/AM

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ANNEX F

Agricultural Development Bank of Afghanistan

Comparative Balance Sheets as of March 20
-Af Millions-

	1972/73	1973/74	1974/75	1975/76
ASSETS				
Cash and Bank Balances	265.2	602.1	661.5	782.8
Estimated current portion of loans inc. interest	67.9	274.2	421.6	560.3
Special fertilizer loans	163.2	130.5	97.9	65.3
Less: Collections	(18.8)	(130.5)	(97.9)	(65.3)
Loan to AFC	-	841.9	-	-
Less: Loan from USAID	-	(841.9)	-	-
Advances	12.6	2.6	19.9	5.3
Other receivables (net)	3.7	19.5	8.2	29.6
Inventories and goods in transit (net)	54.5	69.2	146.3	118.4
Total Current Assets	548.3	967.6	1257.4	1496.6
Estimated non-current portion of loans inc. interest	232.0	350.5	672.3	671.7
Less: Provisions for doubtful debt & interest	(60.1)	(65.7)	(50.5)	(57.0)
Equity investment (net)	16.4	12.6	11.4	11.4
Investment in subsidiary company	-	4.3	4.9	8.0
Total Non-Current Assets	188.3	301.7	638.1	634.1
Fixed Assets (net of depreciation)	10.4	9.4	12.6	18.5
Total Assets	747.0	1278.7	1908.2	2149.2
Managed Funds	86.2	38.0	12.4	-
LIABILITIES				
Demand deposits	23.3	165.2	184.4	305.4
Time deposits and other interest bearing deposits	83.2	344.6	670.0	302.7
Short-term borrowing from DAB	-	-	-	201.0
Creditors and advances	24.2	19.4	27.7	11.9
Other accounts payable and deferred credits	11.3	27.1	58.7	84.9
Current portion of long-term liabilities	32.6	32.6	32.6	32.6
Total Current Liabilities	174.6	588.9	973.4	938.5
Estimated non-current portion of time deposit	-	63.0	178.9	106.3
Long-term liabilities (net of current portion)	142.2	109.1	96.2	355.5
Pension, Health, and Provident Funds	12.3	12.2	13.1	15.9
Total Non-Current Liabilities	154.5	184.3	288.2	477.7
Paid-up share capital	394.8	461.0	543.3	577.2
Reserves	8.3	19.1	52.1	103.7
Retained earnings before appropriation	14.8	25.4	51.2	52.1
Total Stockholders Equity	417.9	505.5	646.6	733.0
Total Liabilities	747.0	1278.7	1908.2	2149.2
Managed Funds	86.2	38.0	12.4	-

Agricultural Development Bank of Afghanistan
Sources and Uses of Funds Statement
(In Millions of Af\$)

	1973/74		1974/75		1975/76	
	Sources	Uses	Sources	Uses	Sources	Uses
ASSETS						
Cash and Bank Balances		336.9		59.4		121.3
Estimated current portion of loans inc. interest		206.3		147.4		138.7
Special fertilizer loans	144.4					
Less: Collections						
Loan to AFC						
Less: Loan from USAID						
Advances	10.0			17.3	14.6	
Other receivables (net)		15.8	11.3			21.6
Inventories and goods in transit (net)		14.7		77.1	27.9	
Estimated non-current portion of loans inc. interest		118.5		321.8	0.6	
Less: Provisions for doubtful debt & interest	5.6			15.2	6.5	
Equity investment (net)	3.8		1.2			
Investment in subsidiary company		4.3		0.6		3.1
Fixed Assets (net of depreciation)	1.0			3.2		5.9
LIABILITIES						
Demand deposits	141.9		19.2		121.0	
Time deposits and other interest bearing deposits	261.4		325.4			367.3
Short-term borrowing from DAB					201.0	
Creditors and advances		4.8		8.3		15.8
Other accounts payable and deferred credits	15.8			31.6	26.2	
Estimated non-current portion of time deposit	63.0		115.9			72.6
Long-term liabilities (net of current portion)		33.1		12.9	259.3	
Pension, Health, and Provident Funds		0.1		0.9		2.8
Paid-up share capital	66.2		82.3		33.9	
Reserves	10.8		33.0		51.6	
Retained earnings before appropriation	10.6		25.8		0.9	
TOTALS	734.5	734.5	654.9	654.9	746.3	746.3

Agricultural Development Bank of Afghanistan

Pro Forma Balance Sheets

	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>
	-----Af Million-----					
ASSETS						
Cash Bank Balances	426.8	322.0	190.7	171.0	140.2	140.6
Loan Portfolio						
Fertilizer	1,022.2	1,259.7	1,553.3	1,859.1	2,027.2	2,105.5
Other Short-term Loans	80.4	94.7	135.2	183.4	183.4	183.4
Medium and Long-term Loans	412.9	573.3	736.7	931.7	1,152.3	1,392.8
Loans to HLDC	115.2	212.4	267.4	267.4	264.9	258.8
Loan to AMSCO	<u>98.8</u>	<u>114.3</u>	<u>129.8</u>	<u>129.8</u>	<u>129.8</u>	<u>129.8</u>
Sub-Total	<u>1,729.5</u>	<u>2,254.4</u>	<u>2,822.4</u>	<u>3,371.4</u>	<u>3,757.6</u>	<u>4,070.3</u>
Other Accounts Receivable, etc.	30.1	30.1	30.1	30.1	30.1	30.1
Investment	69.4	69.4	69.4	69.4	69.4	69.4
Fixed Assets	<u>26.3</u>	<u>38.7</u>	<u>50.4</u>	<u>49.9</u>	<u>48.6</u>	<u>46.3</u>
<u>TOTAL ASSETS</u>	<u>2,282.1</u>	<u>2,714.6</u>	<u>3,163.0</u>	<u>3,961.8</u>	<u>4,045.9</u>	<u>4,356.7</u>
LIABILITIES						
Demand/Time Deposits	500.0	400.0	400.0	400.0	400.0	400.0
Other Accounts Payable (including personnel funds)	94.9	95.8	103.8	115.0	127.9	137.5
Long-term Debt	841.1	1,146.4	1,491.4	1,881.4	2,046.1	2,242.8
Paid-up Share Capital	592.7	592.7	592.7	592.7	592.7	592.7
Surpluses and Reserves	<u>253.4</u>	<u>479.7</u>	<u>575.1</u>	<u>702.7</u>	<u>879.2</u>	<u>983.7</u>
<u>TOTAL LIABILITIES</u>	<u>2,282.1</u>	<u>2,714.6</u>	<u>3,163.0</u>	<u>3,691.8</u>	<u>4,045.9</u>	<u>4,356.7</u>

Agricultural Development Bank of Afghanistan
Pro Forma Income Statements

	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>
	-----Afs Million-----					
<u>Interest and Banking Charges earned</u>						
<u>Loan Portfolio</u>						
Fertilizer Loans	92.0	117.0	146.0	176.7	210.6	227.9
Other Short-Term Loans	8.0	8.0	9.5	13.5	18.3	18.3
Medium and Long-Term Loans	23.3	33.1	45.9	56.1	75.2	92.1
Loans to HLDC 1/	1.5	9.2	17.0	21.5	21.5	21.2
Loan to AMSCO 2/	7.9	9.1	10.4	10.4	10.4	10.4
<u>Sub-Total</u>	132.7	176.4	228.8	278.2	336.0	369.9
Time Deposits	26.3	12.5	5.0	2.5	2.5	2.5
Other Revenues	2.0	2.0	2.0	3.0	3.0	3.0
<u>TOTAL REVENUES</u>	<u>161.0</u>	<u>190.9</u>	<u>235.8</u>	<u>283.7</u>	<u>341.5</u>	<u>375.4</u>
Interest Charges on Time Deposits and Loans	12.1	37.2	54.7	72.7	83.2	89.9
Provision for Losses	5.6	6.9	7.5	9.3	10.4	11.7
Personnel Costs	39.1	45.0	51.8	59.6	68.5	78.8
Other Administration Costs	12.2	14.0	16.0	18.5	21.3	24.4
Depreciation	3.6	4.1	4.8	5.5	6.5	7.3
Extraordinary Expenses	2.0	2.3	2.6	3.0	3.5	4.0
Turnover Tax (5% on Total revenues)	8.1	9.5	11.8	14.2	17.1	18.8
<u>TOTAL EXPENSES</u>	<u>82.7</u>	<u>119.0</u>	<u>149.2</u>	<u>182.8</u>	<u>210.5</u>	<u>234.9</u>
Profit before Taxation	78.3	71.9	86.6	100.9	131.0	140.5
Less: Income Tax (21% on Profit before tax)	16.4	15.1	18.2	21.2	27.5	29.5
<u>Profit after taxation</u>	<u>61.9</u>	<u>56.8</u>	<u>68.4</u>	<u>79.7</u>	<u>103.5</u>	<u>111.0</u>
1/ Herat Livestock Development Corporation						
2/ Agricultural Machines and Service Company						

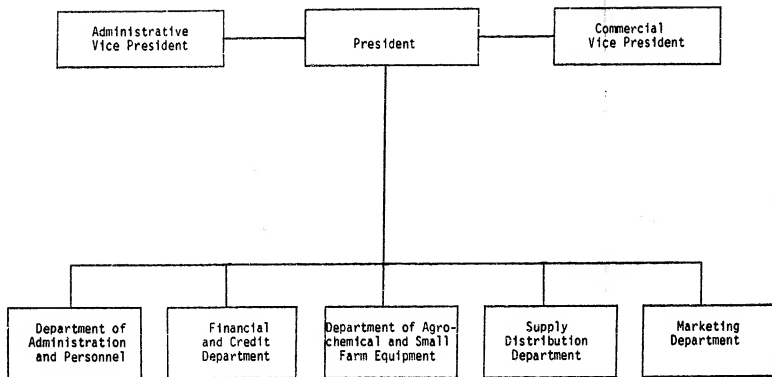
Agricultural Development Bank of AfghanistanComparative Income Statements as of March 20
- Af Millions -

	<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>
<u>INCOME</u>				
Interest & banking charges earned	23.3	72.7	111.4	149.4
Supply Operations				
Sales of merchandise	176.2	92.9	152.5	158.0
Less: Cost of Merchandise sold	(135.7)	(67.1)	(111.4)	(124.5)
Net Profit Supply	40.5	25.8	41.1	33.5
Commissions earned	0.2	0.1	-	2.2
Other Revenues	4.6	2.0	1.2	1.4
Total	68.6	100.6	153.7	186.5
<u>EXPENSES</u>				
Increase in provision for losses	9.4	3.7	5.7	7.3
Interest and banking charges	1.1	24.8	27.7	35.9
Personnel costs	17.8	20.3	27.8	44.5
Other administrative costs	6.1	7.4	9.9	14.2
Depreciation	2.3	2.6	3.5	4.8
Extraordinary expenses	0.8	5.0	2.7	1.7
Turnover tax 1/	4.8	5.5	8.7	10.8
Sub-total Expenses	42.3	69.3	86.0	119.2
Less charged to supply	0.0	0.0	0.7	0.7
Total Expenses	42.3	69.3	85.3	118.5
Profit (loss) before taxes	26.3	31.3	68.4	68.0
Taxes	(2.2)	(5.9)	(17.2)	(15.9)
Profit (loss) after taxes	24.1	25.4	51.2	52.1

1/ Tax computed on revenues from selling merchandise (2%) and on commission from supply, dividend and rents receivable (5%).

Organization Chart for Afghan Fertilizer Company (AFC)

The Executive Board



Total Sale of Fertilizer in Metric Tons for all Crops
(Excluding Coops)

No. of Farmers	30,698	47,407	46,784	57,435 ^{1/}	65,500 ^{2/}
Years	1973/74	1974/75	1975/76	1976/77	1977/78
Afghan Years	(1352)	(1353)	(1354)	(1355)	(1356)
Cash Sales of Urea & DAP	16,326	26,214	21,017	29,960	31,700
Credit provided by Urea and DAP	28,289	36,251	48,732	53,460	64,300
Total Sale Urea and DAP	44,615	62,465	69,749	83,420	96,000
Credit Percent	63%	58%	70%	64%	67%
Cash Percent	37%	42%	30%	36%	33%

^{1/} Estimate

^{2/} Based on most recent data

Source: AFC and ADB's Fertilizer Division

THRESHOLD DECISION BASED ON
INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Afghanistan

Project Title: Agricultural Credit Project

Funding: FY 1977 \$5.0 million grant

Life of Project: Three Years

IEE Prepared By: J. Paul Guedet, NE/CD Date: June 22, 1977

Environmental Action Recommended: Negative Determination

Bureau for Near East Decision:

APPROVED: *J. Paul Guedet*

DISAPPROVED: _____

DATE: 7/6/77

Clearances:

GC/NE: *J. Paul Guedet* Date 6/22/77

NE/TECH: *J. Paul Guedet* Date 6/22/77

INITIAL ENVIRONMENT EXAMINATION
NARRATIVE DISCUSSION

1. Project Location: Afghanistan
2. Project Title: Agricultural Credit Project
3. Funding: FY 1977 \$5.0 million grant
4. Life of Project: Three years
5. IEE Prepared By: J. Paul Guedet, NE/CD Date: June 22, 1977
6. Action Recommended: Negative Determination
7. Discussion of Major Environmental Relationships of Project Relevant to Attached Impact Identification and Evaluation Form:

The Grant will be used by the Agricultural Development Bank of Afghanistan to increase food production.

Indirectly, the Grant will have two positive environmental effects which are, (1) increasing food production and (2) increasing employment of rural poor. Food production should increase with the application of small quantities of fertilizer to seasonal crops such as wheat, cotton and maize. The Agricultural Development Bank makes agricultural input loans to small-scale farmers who use the funds to purchase fertilizer and seeds from the Afghan Fertilizer Company (AFC). The Ministry of Agriculture's extension service and AFC provide written guidelines as well as advisors who recommend specific quantities of fertilizer that should be applied to major crops grown in Afghanistan. Reasonable amounts of fertilizer applied to irrigated land usually increase crop yields which will require a greater number of laborers to harvest and package the produce. Consequently, an increase in food production should provide more opportunities for employment of rural people.

It is not anticipated that there will be any significant adverse effects on surface and ground water by the small amounts of fertilizer normally applied in Afghanistan. The beneficial effects of the application of fertilizer to the crops of Afghanistan far outweigh the potential and unproven adverse effects on the water resources of the country. Pesticides will not be eligible for financing under the \$5 million grant.

IMPACT IDENTIFICATION AND EVALUATION FORMImpact Areas and Sub-areasImpact
Identification
and Evaluation ^{1/}A. LAND USE

1. Changing the character of the land through:

a. Increasing the population

N

b. Extracting natural resources

N

c. Land clearing

N

d. Changing soil character

N

2. Altering natural defenses

N

3. Foreclosing important uses

N

4. Jeopardizing man or his works

N

5. Other factors

B. WATER QUALITY

1. Physical state of water

N

2. Chemical and biological states

N

3. Ecological balance

N

4. Other factors

- 1/N - No environmental impact
 L - Little environmental impact
 M - Moderate environmental impact
 H - High environmental impact
 U - Unknown environmental impact

IMPACT IDENTIFICATION AND EVALUATION FORM

ANNEX N
Page 4

C. ATMOSPHERIC

1. Air additives
 2. Air pollution
 3. Noise pollution
 4. Other factors
- _____
- _____

N

N

N

D. NATURAL RESOURCES

1. Diversion, altered use of water
 2. Irreversible, inefficient commitments
 3. Other factors
- _____
- _____

N

N

E. CULTURAL

1. Altering physical symbols
 2. Dilution of cultural traditions
 3. Other factors
- _____
- _____

N

N

F. SOEIOECONOMIC

1. Changes in economic/employment patterns
 2. Changes in population
 3. Changes in cultural patterns
 4. Other factors
- _____
- _____

L

N

N

IMPACT IDENTIFICATION AND EVALUATION FORMI. SPECIFIC

1. Changing a natural environment
2. Eliminating an ecosystem element
3. Other factors

N

N

II. GENERAL

1. International impacts
2. Controversial impacts
3. Other factors

N

N

III. OTHER POSSIBLE IMPACTS (not listed above)Prepared By: J. Paul Guedet, NE/CD Date: June 22, 1977Project Location: AfghanistanProject Title: Agricultural Credit Project

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Agricultural Development Bank of Afghanistan

Financial and Operational Indicators

	<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>
Liquidity Ratio	3.1 to 1	1.6 to 1	1.3 to 1	1.6 to 1
Long-term Debt to Equity	0.37	0.37	0.45	0.65
Long-term Debt to Assets	0.21	0.14	0.15	0.22
Total Debt to Assets	0.44	0.60	0.66	0.66
Times Interest Earned		4.1	5.6	5.2
Gross Income from banking operations as percentage of Loan Portfolio	7.8	11.5	10.2	12.1
Total Gross Income as percentage of Loan Portfolio	22.9	16.1	14.1	15.1
Operating Expenses as percentage of Loan Portfolio	12.2	9.4	6.8	8.7
Net Profit as percentage of Loan Portfolio	8.0	4.1	4.7	4.2
Number of Employees	354	378	533	794
Net Income/employee (Afs)	68,079	67,196	96,060	65,617
Total value of loans made (Afs 000)	217,996.	398,629.	807,587.	715,562.
Total number of loans made	462	30,969	48,150	47,764
Average value of loan (Afs)	471,853	12,872	16,772	14,981
Total Loan Portfolio (Afs 000)	299,900.	624,700.	1,093,600.	1,231,560.
Return on Total Assets (%)	3.2	2.0	2.7	2.4
Return on Equity (%)	5.8	5.0	7.9	7.1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 77 to FY 80
Total U.S. Funding: \$5,000,000
Date Prepared: April 28, 1977

Project Title & Number: Agricultural Credit Project, 306-0165

ANNEX P

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes</p> <p>To improve the standard of living of the rural poor through increased agricultural production and to develop employment opportunities in the rural areas.</p>	<p>Measures of Goal Achievement:</p> <p>1) Improved income distribution over the long term for small farmers.</p> <p>2) Foreign exchange savings attributable to a decrease in imports of wheat and cash crops.</p>	<p>GOA National Income Accounts</p> <p>Ministry of Finance and Central Bank's records.</p>	<p>Assumptions for achieving goal targets:</p> <p>GOA politically and financially supports rural development and agricultural development objectives.</p>
<p>Project Purpose:</p> <p>1) Increase agricultural production, especially wheat and other food grains, as well as sugar beets and other cash crops.</p> <p>2) Increase agricultural productivity and small farmers' incomes through supplying credit for agricultural inputs.</p>	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <p>Total wheat production increases to 3.5 million tons by 1982 from 2.9 tons in 1975.</p> <p>Farm families per capita income increase to \$630 per year from an average of \$420 per year.</p>	<p>Ministry of Agriculture's records</p> <p>GOA National Income Accounts</p>	<p>Assumptions for achieving purpose:</p> <p>GOA fosters policies favorable to increasing wheat and cash crop production.</p>
<p>Outputs:</p> <p>The AgBank processes and manages fertilizer and agricultural input loans to small-scale farmers totaling five million dollars.</p>	<p>Magnitude of Outputs:</p> <p>\$5 million worth of fertilizer and agricultural input loans averaging \$200 each to small-scale farmers.</p> <p>AgBank's total short term loan portfolio increases by at least \$5 million over total value of short term loans made in 1976/77.</p>	<p>1) AgBank's annual reports</p> <p>2) IBRD records and USAID implementation of project</p>	<p>Assumptions for achieving outputs:</p> <p>AgBank continues to operate as the main lending agency for small farmers.</p>
<p>Inputs:</p> <p>AID provides a five million dollar grant to the AgBank through the Government of Afghanistan to finance fertilizer and agricultural input loans to small-scale farmers.</p>	<p>Implementation Target (Type and Quantity)</p> <p>Implementation Plan presented in Project Review Paper.</p>	<p>1) AID grant authorization</p> <p>2) Grant agreement signed</p> <p>3) AgBank annual reports</p>	<p>Assumptions for providing inputs:</p> <p>The AgBank is committed to increasing the availability of credit to small farmers for fertilizer purchases.</p>

MINISTRY OF PLANNING

) *Dep't*

REPUBLIC OF ARMENIA
K'EDU

د پلان وزارت

د () و یاست
ت () د یو ریت
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3046 J. Neurosci., July 26, 2006 • 26(30):3041–3046

— *Journal of the American Medical Association*, 1997

World Bank assistance is required to finance the project for the initial stages. The Government will be short of the credits and that will be a problem for the project. It requires that assistance to make up the shortfall in the funds that will be required by the Agricultural Extension Board and to finance the credit needs of the nation's farmers.

Yours sincerely,

Copy sent to Mr. [redacted]

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Small-Scale Farmer's Projected Source and Use of Funds Statement
(In Dollars)

	Years									
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
<u>SOURCE OF FUNDS</u>										
<u>REVENUE:</u>	840	800	800	800	840	800	800	800	840	800
Short-Term Loan	200	100	-	-	-	-	-	-	-	-
SUBTOTAL	<u>1040</u>	<u>900</u>	<u>800</u>	<u>800</u>	<u>840</u>	<u>800</u>	<u>800</u>	<u>800</u>	<u>840</u>	<u>800</u>
 <u>USE OF FUNDS</u>										
Operating Costs	720	670	660	660	700	660	660	660	700	660
Debt Repayment	200	100	-	-	-	-	-	-	-	-
SUBTOTAL	<u>920</u>	<u>770</u>	<u>660</u>	<u>660</u>	<u>700</u>	<u>660</u>	<u>660</u>	<u>660</u>	<u>700</u>	<u>660</u>
 TOTAL WORKING CAPITAL	120	130	140	140	140	140	140	140	140	140

Small-Scale Farmer's Pro Forma Income Statement
(In Dollars)

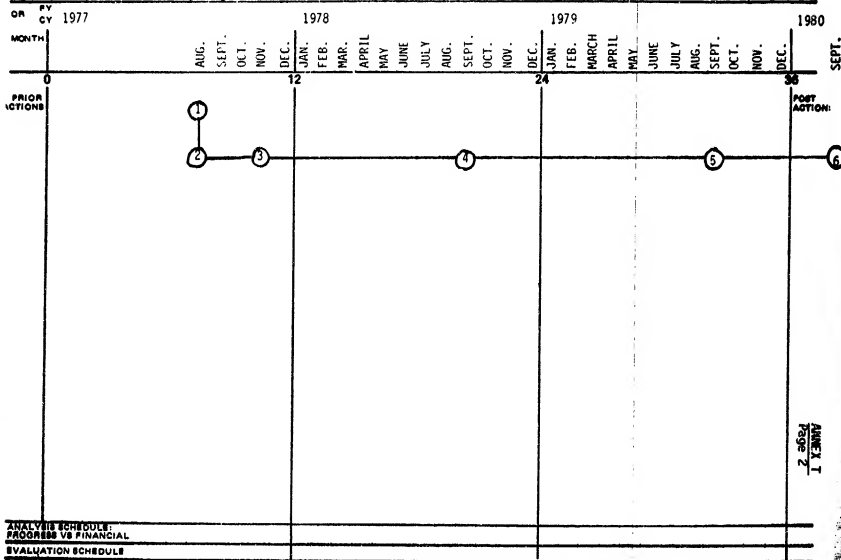
	Before Project	Years									
		1	2*	3	4	5	6	7	8	9	10
<u>REVENUES:</u>	420	840	800	800	800	840	800	800	800	840	800
<u>OPERATING EXPENSES:</u>											
Oxen Hire	60	90	90	90	90	90	90	90	90	90	90
Family Labor	350	420	420	420	420	420	420	420	420	420	420
Fertilizer		150	150	150	150	150	150	150	150	150	150
Seed		40	-	-	-	40	-	-	-	40	-
Interest on debt		20	10	-	-	-	-	-	-	-	-
<u>TOTAL OPERATING EXPENSES</u>	410	720	670	660	660	700	660	660	660	700	660
<u>OPERATING INCOME</u>	10	120	130	140	140	140	140	140	140	140	140
Incremental Income		110	120	130	130	130	130	130	130	130	130
Incremental Economic Benefits		130	130	130	130	130	130	130	130	130	130

*Farmers retain 280 kgs of seed (costing \$0.14/kg) to use for the next planting of wheat; every fourth year new improved seed should be purchased.

COUNTRY	PROJECT NO	PROJECT TITLE	DATE	<input checked="" type="checkbox"/> ORIGINAL	APPROVED
Afghanistan	306-0165	Agricultural Credit	6/30/77	<input type="checkbox"/> REVISION #	
PROJECT PURPOSE (FROM PAP FACESHEET)					
<p>Increase agricultural production and increase agricultural productivity and farmers' incomes through supplying credit for agricultural inputs.</p>					
CPI DESCRIPTION					
<ol style="list-style-type: none"> 1. Project Paper approved and funds authorized. 2. Project agreement signed by GOA. 3. CP's met. 4. Reimbursement to ADB for 47 percent of the value of incremental small-scale farmer loans made during Aug. 1977 to Sept. 1978. 5. Reimbursements to ADB for incremental small-scale farmer loans over the base year Aug. 1978. 6. Final reimbursement to ADB for small-scale farmer loans made up to Sept. 1980. 					

ANNEX I
Page 1

COUNTRY	PROJECT NO.	PROJECT TITLE	DATE	<input checked="" type="checkbox"/> ORIGINAL	APPROVED
Afghanistan	306-0165	Agricultural Credit	6/30/77	REVISION #	



ANALYSIS SCHEDULE:
PROGRESS VS FINANCIAL
EVALUATION SCHEDULE

ANNEX 1
Page 2